

BANKING FRAUDS IN INDIA

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CONTENTS

	PAGE
FOREWORD	xi
INTRODUCTION	xv
PREFACE	xix
CLEARING CHEQUES	1
RECEIPTS FOR AMOUNTS DEPOSITED	6
SPECIMEN SIGNATURES	10
PRECAUTIONS NECESSARY WHILE HANDLING CASH OUTSIDE THE BANK PREMISES	16
REQUESTS FOR BLANK CHEQUE BOOKS	19
KEYS OF SAFES AND STRONG ROOMS	24
ADVANCES AGAINST LIFE POLICIES	27
COLLECTING FOR CUSTOMER CHEQUES DRAWN IN FAVOUR OF THE BANK	30
CHANGING OF VOUCHERS	34
CUSTODY OF UNUSED CHEQUE FORMS RETURNED BY CUSTOMERS	40
EXTENDING DUE DATES OF BILLS	45
NEGLIGENCE ON THE PART OF THE AUDITORS	48
ADVANCES TO JOINT STOCK COMPANIES	52
REGISTERING THE CHARGE ON THE ASSETS OF A JOINT STOCK COMPANY	55
TEMPORARY PARTING WITH SECURITIES	57

CONFIRMING ENDORSEMENTS ON CHEQUES		
RECEIVED FOR COLLECTION	...	60
FORGED LETTER OF CREDIT	...	63
ADVANCES AGAINST EQUITABLE MORTGAGE		
OF PROPERTIES	...	68
PROMPTNESS REQUIRED IN COLLECTING		
CHEQUES DRAWN ON NON-CLEARING BANKS		72
HUNDIS ON BOGUS PARTIES	...	75
CARE OF INSURED PACKETS	...	80
CARE OF CLOCKS	...	83
ADVANCES AGAINST HIDES & SKINS	...	86
REPUTED OWNERSHIP	...	89
TRUST RECEIPT FACILITIES	...	93
TAKING OVER ACCOUNTS FROM OTHER BANKS		97
ADVANCES AGAINST DELIVERY ORDERS ISSUED		
BY THE CONCERNS OF THE BORROWERS	...	101
ADVANCES AGAINST GOODS RECEIVED		
ON CONSIGNMENT BASIS	...	105
STAMPS ON FOREIGN BILLS	...	105
OPENING CURRENT ACCOUNTS	...	11
ADVANCES AGAINST PIECEGOODS	...	11
CREDITING AMOUNTS OF TELEGRAPHIC		
TRANSFERS	...	11

(ix)

ADVANCES AGAINST DELIVERY ORDERS	...	121
ADVANCES AGAINST SHARES	...	125
ADVANCES AGAINST GOVERNMENT PAPERS	...	128
SUBSTITUTION OF STOCKS	...	131
ADVANCES TO AGRICULTURISTS	...	135
SELLING OF SECURITIES	...	136
PASSING CHEQUES	...	138
OMISSION TO PERFORATE DRAFTS, ETC.	...	141
TRANSFERRING AMOUNTS BY LETTERS		
SIGNED BY ONE OFFICER	...	145
CANCELLATION AND CUSTODY OF		
PAID CHEQUES	...	148
REFUNDING AMOUNTS OF DRAFTS		
REPORTED LOST	...	151
COLLECTING CHEQUES FOR CUSTOMERS	...	153
CARELESSNESS IN CHECKING BOOKS	...	156
SINGLE POWER OF ATTORNEY	...	160
UNEXPECTED OBJECTIONS BY THE PUBLIC		
DEBT OFFICE	...	165
ADVANCES AGAINST PROPERTY	...	167
NEGLECT OF AUDITORS	...	176

FOREWORD

My friend Mr. V. R. Sonalker of the Central Bank of India, Amritsar, has asked me to write a few words by way of a Foreword for his interesting 'short notes' showing how Banks have suffered losses owing to the inexperience and very often the lack of proper care that might have been exercised by the Bank staff in the proper discharge of their duties. It may also be admitted that very often the methods adopted by the clever forgerer aided often by some dishonest and negligent member of the staff, have combined to occasion sometimes heavy losses to the Banks and to the careless clients of the Banks. Mr. Sonalker's 'short notes' have been presented in a most attractive form and in a pleasing style of writing, and if carefully read and digested by the reader and the Bank officials, will be found very instructive.

With the increase in more extensive use of Bank facilities in commercial undertakings, these interesting instances written under assumed names would go a long way in checking abuses.

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this matter would not be found amiss if the valuation of such properties is made with greater care and somewhat more strictly as such securities are liable to heavy fluctuations in price; and if advances are made on a small margin, the loss at the time of adjustment by a fraudulent debtor is sometimes heavy. Nothing would be lost by the exercise of greater care in the valuation of house properties offered by way of collateral security for the grant of a loan.

I congratulate the author for his instructive book, and appreciate the forethought and energy he has spent in presenting his treatise to the general public. I am extremely sorry that with my other engagements I have kept the manuscript for an inordinately longer time, and regret the delay that has been occasioned in writing this Foreword. Though I could claim a little experience owing to my connection with the Punjab and Sind Bank, the Imperial Bank of India and the Reserve Bank of India, I would have preferred if this duty had fallen on more experienced shoulders than mine as I could, after all, only claim to be a layman in the line of Banking. But it was difficult to refuse the request of my friend. So I am happy to be able to say a few words by way of a Foreword to the well-written short treatise of Mr. Sonalker, and trust that the

(xiii)

industry of the author will be appreciated by the public for whose benefit it has been written.

*Camp Hoshiarpur,
August, 1937*

Sundar Singh Majithia

INTRODUCTION

I am glad to write a few words by way of Introduction to this fascinating and instructive study of bank frauds in India. It is a thriller and it must therefore appeal to wider section of reading public that finds pleasure and excitement in mystery books. Its importance, however, to bankers is great and undeniable. It indicates the pitfalls to the unwary, and how to avoid them. Every bank official must read it as a necessity to vividly realise the dangers that lie across his daily routine and how to overcome them.

Knowledge is a double-edged weapon; it can be used as well as abused. Scientific and technical advancements aim at better service of mankind but the mal-content and the morbid use them as instrument to defy social order. Similarly the subject matter of this book is a useful aid to those who wish to checkmate evil designs on banking structure, though in the hands of the unscrupulous it may mean possession of knowledge, perhaps hitherto unknown to him, which can be turned to his evil advantage. But as, on balance, extension of education and scientific research lead to progress in civilization, so dissemination of principles enunciated in this book must on the whole lead to better protection of banking

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institutions.

Though some swindlers may escape unpunished generally every fraud and forgery writes warrant for its own arrest. A few signs are invariably left behind to help detection of crimes. And if this verdetta, which overtakes crimes, had been equally emphasised, that would have strengthened the book's value as a deterrent of unlawful assaults on banks.

Broadly speaking bank frauds can be divided into two main groups:—

1. Those which are the result of temptations winking at the weak through defective procedure and incomplete internal arrangements.
2. Those which are the result of betrayal on the part of those entrusted with the ultimate responsibility of supervision.

Tightening of control and better administration eliminate or minimise dangers of the first type, but the second series of crimes can only be checked by inculcating high ethical standards and principles of good conduct. The book admirably deals with the first problem; the second danger is inherent in human nature and is incapable of control. Who can protect from the evils of protectors!

Mr. Sonalker has done a very useful service to banks by focussing attention of bank officials on

(xvii)

administrative loopholes. Realisation of weakness is
an essential preliminary to its removal.

Karachi,
August, 1937.

B. T. Thakur

PREFACE

In the first few years of the last decade there was quite a large crop of banking frauds in India. Many of the big banks were among the victims. The rapid sequence in which one big fraud followed another was very striking. I started keeping notes to find out whether there was any common cause which could be removed and the repetition of frauds stopped.

In the next few years I had occasions as Internal Auditor of one of the biggest Indian Banks to visit important commercial centres like Bombay, Calcutta, Madras, Rangoon, Karachi, Hyderabad, Ahmedabad, Lahore, etc. During these tours I availed myself of every opportunity of meeting people belonging to different banks and discussing with them the frauds about which I had read in the papers. During the course of the conversations I came to know of many other frauds which had not found mention in the press. I collected as much information as possible about all the frauds whether they were reported or not. In many cases the details which I could gather were not quite clear but the accounts that I had heard were sufficient to bring out the salient points about the irregularities in the procedure or defects in the legal position. On comparing my notes I came

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(xx)

across instances where many of the frauds had already been repeated in different banks in different centres. The remarkable resemblance which I noticed in the *modus operandi* in most of the frauds of similar nature showed that, human nature being what it is, given similar conditions, viz: laxity of control, absence of system, ignorance of banking principles or unwarranted reliance on subordinates, frauds of similar nature were likely to recur.

I therefore thought it better if these notes could be published in a book form and made available to all bank officials so that they might be warned of the risks they would run by departing from the system laid down by the bank authorities or by their failure to appreciate the necessity of taking every precaution even in ordinary daily routine, to safeguard the interests of the bank.

Of the numerous instances in which the banks were lost in the courts of law, very few could be traced to previous design on the part of the borrower. In most of the cases it was the customer's desperate attempt to salvage something after a financial crash that led him to repudiate his liability. Wherever the banks had to write off large amounts on account of the dishonesty of their employees, it was not that this was due either to the banks having given unlimited powers to an individual officer or to s

incompetent or slack officer relying too much on a wily subordinate.

In the education of a banker practice plays a far more important part than theory. It is therefore very necessary that the executives of the banks should know of as many occasions as possible on which the banks have lost large sums on account of deliberate frauds by subordinates or on account of legal defects in the documents taken by the banks.

The rapid development of banking in India, in recent years, has compelled the banks to promote junior members of the staff to responsible positions without their having gone through the traditional long period of apprenticeship. I have tried to put in as much useful information in these pages as possible in the hope that it will afford a sort of guidance to junior officers and will strikingly draw their attention to the points which call for great circumspection even in ordinary everyday routine—be it a matter of law or of practice. I shall therefore consider my labour amply rewarded should this book help even a single bank in remedying the defects in its routine or in formulating a system which will leave little room for fraud.

Amongst my notes there were many instances of frauds similar in nature. While compiling them in a book form I have selected a typical case out of

the many frauds of the same kind. As these notes have been specially written for bank officials, knowledge of Banking routine is presumed. I have therefore dispensed with the necessity of describing in detail every ordinary banking operation.

I feel that I should state here clearly that some of the narratives are no doubt based on important points in reported cases; some relate to occurrences which did not find mention in the press; a few owe their origin to occasions on which the bank's lawyers were able to come to the bank's rescue before it was too late; while the others are constructed only to illustrate certain peculiar risks.

It was not possible to get the details of the frauds even in reported cases. It was more difficult to collect the facts concerning incidents about which I had only heard from other people. I have therefore reconstructed some of the frauds as best as I could and sometimes to embellish the story and to make it more interesting I have shown the management more lax than they probably were. The particulars given are, in many cases, far from the facts. To readers if they see resemblance to reported cases should not be carried away by the idea that such conditions did in reality exist in the banks concerned. In fact the narratives have been based only on the important points that have come to notice in

several frauds.

I also owe an apology to the clients and members of the staff of the banks involved in these cases for any misrepresentation of their point of view that may have occurred in my endeavour to bring to the notice of bankers, within the compass of a single narrative, as many lacunæ as are likely to exist in the individual system of checks and balances. In pursuance of this policy I have sometimes blended a number of frauds to form one plausible story by making the crook resort to all possible tricks which in fact were tried on different banks by different individuals at different times. I may have, in my attempt to stress the risk to bankers' interests, painted the culprit in darker colours.

The book has been written with a view only to impress the bank officers as to the great circumspection required of them even in ordinary matters of everyday routine. I trust the banks concerned will appreciate the spirit in which the notes are written and will excuse me for building my stories over the incidents in which they were involved.

The names used are all imaginary and have no reference to real persons or institutions.

I take this opportunity of thanking the Hon'ble Sir Sundar Singh Majithia who, in spite of his multifarious engagements, found time to go through

(xxiv)

my manuscript and kindly agreed to write a Foreword. I am also grateful to Mr. B. T. Thakur, acknowledged authority on Indian Banking problems for writing Introduction to my book.

I must thank Mr. Mehar Chand Varma of Central Bank of India, Ltd., Amritsar, for the help he gave me during the publication of the book.

Amritsar,
August, 1937.

V. R. Sonalkar

CLEARING CHEQUES

THERE was a sensation in the First National Bank since the morning. The whole staff of the Bank appeared agitated. The cause of this disturbance in the usually calm atmosphere of the office was the dismissal of Manak Lal, one of the ablest ledgerkeepers. His frank but blunt way of explaining to the officer that the manner in which he wanted to reverse a certain entry was wrong, had upset Mr. Fernandez, a young officer. Matters came to a pass when the ledger keeper refused to carry out the instructions of the officer particularly in that regard, unless these were confirmed by the chief accountant. Mr. Fernandez reported the incident to the manager and to uphold the prestige of the officer, the manager dispensed with the services of Manak Lal.

"I will prove he is incompetent to manage the department" were his last words when Mr. Manak Lal walked out of the bank with three months' salary and the amount of his provident fund. The officer when he heard of it simply laughed at the 'empty boast of an impotent clerk.'

Manak Lal had very nearly succeeded in getting a job in one or two places but it appeared that his previous employers did not give him a good reference.

The bank had ruined him for ever. The thought of revenge then entered his head and clever as he was, he soon discovered a way by which he could make his life much harder than he would ordinarily have wished.

With the money that he received on account of his provident fund and salary in lieu of notice, he had opened a savings bank account with the Industrial Bank. He transferred that money to a current account. A few weeks later he called at the Industrial Bank and gave them a cheque for Rs. 80,000 drawn on the First National Bank. Naturally such a big cheque in the account which had all along maintained a small balance did evoke curiosity on the part of the ledger keeper. But Manak Lal was able to satisfy him by explaining him that the cheque was drawn against his fixed deposit which had now matured. He did not fail to add smilingly, "What do you worry? You are not going to pay me until you get the money. But please see that you present the cheque in the first clearing so that I may be able to withdraw the money in the afternoon should require it."

Manak Lal called at the Industrial Bank an hour after the Clearing Time for receiving back unpaid cheques was over and presented a cheque for Rs. 65,000/- across the counter which was paid in the ordinary course. The cashier, as was his way,

tried to pass on small and dirty notes in payment of the cheque and Manak Lal thanked his stars for the God-sent offer in being paid in small notes which were to help him in disposing off that large amount without creating suspicion or leaving any trace.

It was 10 o'clock in the night. The cash book writer at the First National Bank was intently bent on his book totalling again and again the clearing column of his cash book, when a car stopped at the door of the bank and a man in European dress stepped out. "What is the matter, Shushi Babu! Is your cash book not yet tallied?" he queried. "Sir," fumbled the cash book writer, "there is a difference of Rs. 80,000/- in the clearing column." "What," retorted the Manager, "It must be difference in the totals." The totals were rechecked but the difference was not to be found. "Jamadar," called the Manager, "Send for the clearing clerk, the ledger keepers and Mr. Fernandez."

The clearing slips received from other banks were looked into to find out whether there was any entry for Rs. 80,000/-. In the slip received from the Industrial Bank was an entry for Rs. 80,000/-. Everyone of the ledger keepers emphatically denied having seen the cheque for Rs. 80,000/-. "Then it must be a draft," said the manager. The officer in of the current accounts was asked whether he

had any recollection about that instrument for Rs. 80,000/-. He was unable to throw any light, as there was no regular record kept showing as to how many cheques were received in the clearing and to whom they were delivered. A practice had grown for the clearing clerk to hand over the clearing cheques to the jamadar who used to distribute them.

The manager caused a thorough search to be made for the cheque but as it proved unavailing and as nothing further could be done at so late an hour, he left the bank after instructing Mr. Fernandez to get the information from the Industrial Bank as early as possible.

At 9-30 next morning, Mr. Fernandez was at Industrial Bank in order to ascertain the name of the drawer and other particulars of the cheque or ticket for Rs. 80,000/-, that had been presented in the clearing the day previous. The register of clearing cheques could not definitely show who was the bearer of the cheque. The entry in the register read 'legible.' From the information given by the register keeper, it appeared that the cheque was drawn by Manak Lal himself. "Impossible," declared Mr. Fernandez, "The cheque could not have been drawn by Manak Lal. He has not even eight annas in his account with us. You are mistaken." But as no further information was forthcoming he thought

it best to return to his own bank. The manager heard all what Mr. Fernandez had discovered at the Industrial Bank. It did not take him long to come to the conclusion that the cheque was destroyed after it had left the clearing house. It could not be established whether it was destroyed by the clearing clerk or by the jamadar or by any of the ledger keepers.

The matter was handed over to the police but they could not find out the whereabouts of Manak Lal, who had utilised the start and had vanished.

RECEIPTS FOR AMOUNTS DEPOSITED

Seth. "Manager Sahib, I am very sorry to trouble you. I have a little complaint against the Bank. Here is my pass book for the account of Messrs. Shivnarain Ramcharan and here are my counterfoils. I do not find one entry dated 24th October, 1931 for Rs. 2,000/-. The office has not been able to explain why the money represented by the counterfoil is not credited to my account."

Manager. "Well, I will just make enquiries and find out. It will take about half an hour. Will you please leave the pass book here and wait in the waiting room?"

The manager sent for the ledger keeper and the officer in charge of the current accounts and asked them to explain why the sum of Rs. 2,000 for which Seth Jiwan Lal held counterfoil dated 24-10-1931, did not appear in the account.

"Has there been any misposting?" He asked. "Look up the Scroll Book, and the Cash Book and let me know where the money has gone."

The officer in charge returned and brought the vouchers for Rs. 2,000/- of that day and cc

vinced the manager that they were all correctly posted. The cashier was also questioned but he could not throw any light.

In explaining the system followed by the bank, the manager told Seth Jiwan Lal that as a check on the cashier's swindling away any monies deposited, they had introduced a book called 'scroll book' in which the serial number, the name of the account and the amount of each voucher were entered before passing on the voucher to the cash department for receiving the amount from the client.

"There is no entry in any of our books for the amount claimed by you. It is very unlikely that the amount was tendered at the bank that day. I think that there is something fraudulent about the counterfoil dated 24-10-1931 and the amount which this counterfoil purports to represent, has not been actually received in the bank. We have to convince you that there is something wrong with this counterfoil and it appears that we shall have to take the help of the police to find out the truth. To enable me to hand over the matter to the police, will you please write us a letter saying that the amount of Rs. 2,000/- represented by the counterfoil was actually sent by you to the bank on 24-10-31 and that it does not appear in your pass book."

During the investigation the police discovered

that the messenger who alleged that he had deposited the amount represented by the counterfoil dated 24-10-1931 had lost large amounts in gambling during the Diwali days. The police inspector therefore sent for him and gave him to understand that the police had collected all proofs and if he confessed he would be let off with a light punishment. Knowing from the attitude of the police that he was found out, he made a clean breast of it.

His confession revealed that his employers had two accounts in the Industrial Bank, one in the name of Jawaharlal Gopikrishnan and the other in the name of Shivanarain Ramchand. He was the only person entrusted to go to the bank with monies. He used to take the amounts to be deposited sometimes in the account of Messrs. Jawaharlal Gopikrishnan and other times in the account of Messrs. Shivanarain Ramchand. On 24-10-1931, when he was going to the bank with Rs. 2,000/- to be paid into the account of Messrs. Shiv Narain Ram Chand, he met two of his friends who dragged him to another friend's house where gambling was going on. He could not resist the temptation and justified his indulging in gambling on that day because it was the Diwali time. Unfortunately he went on losing and when he had exhausted the few rupees that he had with him, he used his master's monies also. These also were lost.

He could not raise sufficient funds to make up this loss and therefore, when he was ready with the next remittance for the like amount on the 29th October, 1931, just after the Diwali holidays, he thought of trying to pass on the loss to the Bank. He prepared a paying-in-slip crediting Rs. 2,000/- to the account of Jawaharlal Gopikrishan but in the counterfoil he wrote 24-10-1931 instead of the correct date, 29-10-1931, and Shivrarnain Ramchand instead of Jawaharlal Gopi Krishan.

The police wanted to verify his statement. They therefore put the counterfoil purporting to be dated 24-10-1931 with the paying-in-slip dated 29-10-1931 and holding it against the light found from the water mark that the counterfoil really belonged to the voucher dated 29-10-1931.

No body could have dared to put forward such a claim against the Bank, had it been stamping the counterfoils with a rubber stamp which indicated the date and which was placed in such a manner over the perforation that a part of the rubber stamp ran over a portion of the voucher also.

SPECIMEN SIGNATURES

"SIR, I was appointed in 1926 on Rs. 30/- per month. I have put in five years' service but during this period I have not been given any increment. I have a large family to support and find it increasingly difficult to make both ends meet. I shall be highly grateful to you if you will consider my case sympathetically," entreated Mr. Gulati, a savings bank ledger keeper at the head office of the Prabhat Bank Limited.

"I am sorry the times are very hard and nothing can be done for you. Other banks are either sending away a number of people or are drastically reducing their salaries. You should appreciate the kindness our bank has shown in leaving your salaries intact without dispensing with the services of any of the members of the staff," was the disappointing reply of the Manager.

For some months past Gulati had been actually finding it very difficult to provide his family with the bare necessities of life. The illness in the underfed and underclad family was growing. He could not think of any item in his budget which could be curtailed to effect economy to enable him to live within his means. Every succeeding month of his miserable existence meant getting deeper into debt.

In the morning when he had approached the Manager he was in a desperate frame of mind. The winter had set in and he had no money even to buy a little warm clothing for his wife and children.

In the evening when he wearily dragged himself home, the first news that he got was that two of his children were lying unconscious with high fever.

"I cannot bear the agonies of the children. Please call in the doctor," pleaded his wife. He could not show his face to his old doctor; because he had not been able to pay any of his long outstanding bills. Sending for any other doctor meant having Rs. 5/- ready.

In the office there was absolutely no chance of his getting any increment which would give him some relief. At home he could not bear his children dying before his eyes for want of medical aid due to his poverty.

Gulati could not get sleep the whole night. He kept tossing restlessly in the bed. When he got up late next morning he was not the same broken clerk that had trudged home from office the previous evening. He had the bearing of a man determined to overcome all difficulties by means fair or foul.

Very regular in his attendance, Mr. Gulati was a hard working youth always willing to oblige every body in the Bank. He would offer to assist his officers

in checking totals and interest calculations, made by the ledger keepers in the saving bank department and his officers required little persuasion to pass on such work to him. Things thus went on for years.

During the month of September, 1935, Mr. Gulat suddenly fell ill. In this condition he persisted in attending the office for four days but on the fifth his greatly weakened health did not allow him to leave the bed. Mr. Bakshi was deputed to work in his place.

Mr. Lalubhai—a saving bank depositor of the Prabhat Bank Ltd, presented a withdrawal to Mr. Bakshi, but was startled to hear that his balance was insufficient to meet the cheque. He straightaway went to the Manager and explained to him that though his pass book showed a balance of Rs. 5,000/-, his cheque for Rs. 500/- presented to the new ledger keeper was being returned unpaid for want of sufficient funds.

"For the last three years I have been away to Japan and have had no occasion to withdraw even a single pie from my account," cried the depositor.

On referring to the account it was noticed that there were a number of withdrawals during the last three years. The Manager then sent for the vouchers to be produced for the inspection of the client. The signatures on the withdrawals appeared to correspond exactly to the signature on the Specimen Sign

ire Card. The Manager, thereupon hinted to the depositor that he might be making some mistake. The depositor emphatically declared that the specimen signature card produced for comparison was not the original card he had signed at the time of opening the account. He asked the Manager to refer to his original application and to the withdrawals he had made before leaving for Japan.

Even a cursory glance at these papers could show that the Specimen Signature card originally signed by the depositor had been replaced to facilitate unauthorised withdrawals. When the manager investigated the matter he came across a number of other accounts where the ledger keeper had played the same trick.

The officer was not attesting the customers' signatures on the specimen signature cards and was not careful in keeping these cards exclusively in his own possession. Mr. Gulati could, therefore, replace specimen signature cards in a number of accounts.

Mr. Gulati was not doing the whole thing single-handed. He had an accomplice in a friend. This friend was operating upon five different accounts under assumed names which were carefully chosen so that all of them appeared in the ledger which Mr. Gulati was managing. Mr. Gulati was passing forged withdrawals from a number of accounts and was

transferring the amounts to one of the five bogus accounts wherefrom he was withdrawing the amount with the help of his friend.

His procedure of manipulating the accounts was found to be somewhat as follows :

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At the end of each half year he was naturally afraid of the depositors coming with their pass books to have the amount of interest allowed on the accounts posted in their pass books. But Gulati had a clever way of safeguarding himself even against this exigency by manipulating the books and making the amounts he had withdrawn.

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PRECAUTIONS NECESSARY WHEN HANDLING CASH OUTSIDE THE BANK PREMISES

Police Officer—"Mr. Manager, it is a pity that I cannot tell me the real full name of the man. You do not seem to have any idea about his native place. The task would have been much easier if you got his photograph. As it is, I have only information that you have been able to give me about the man, that he has run away with your money."

In the busy season most of the banks in the city used to borrow large sums of money from the Premier Bank. There were occasions when they had to borrow lacs of rupees at a time. The task of getting cash from the Premier Bank was entrusted to an ordinary employee in the cash department. He was generally accompanied by a sentry with a gun but in many cases he was accompanied by an ordinary peon of the Bank.

The Modern Bank one day wanted to get a large amount of cash from the Premier Bank.

sent a cashier and a peon to get it. The cashier received payment of the cheque at the Premier Bank and was returning to his bank with the cash. It was his usual tea time when he passed a restaurant. He had already been out of the Bank for a pretty long time. He thought it would be better if he finished with his tea while on his way to the bank and did not bother the office to relieve him again for tea when he had returned to the office after being away for a long time. With this intention the poor fellow entered the shop to enjoy a cup of tea. Before doing so, he gave the cash which was with him, to the peon and asked him to wait outside with the bag containing notes.


When the cashier came out, he found to his surprise that the peon was not there. Thinking that he might have proceeded to the Bank which was not very far off, he hurried to the Bank. When he learnt that the peon was not there, he became very nervous and reported the matter to the Chief Cashier and the manager. Two persons were at once posted at the railway station to see that the culprit did not catch the train leaving the town. The police were also informed. The rogue had, however, laid his plan pretty well. He had anticipated that he would find it difficult to run away from the local railway station. He, therefore, got into a lorry going to a village about

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The police asked for a photo of the man wanted to know the village and the district to which he belonged. The Bank could not furnish any of the particulars which could help the police.

REQUESTS FOR BLANK CHEQUE BOOKS

PPORTUNITY is sometimes the mother of crime. Well-organised banks had this idea foremost in their minds while laying down their systems of checks and balances. If these systems are followed as rigidly as they are intended to be done, they will leave absolutely no chance for fraud.

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Their friendship started on the Race Course. It developed during their meetings at the 'Big Bottle Bar.' Naturally, in addition to racing, the other topics of common interest for all of them used to be the daily happenings in the respective banks. They used to talk about sub-accountant, P. Smith or the accountant, Golwala, who depended too much on the ledger-keepers and other clerks, and signed almost anything that was placed before them by their favourite clerks.

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The game could not go on long. Unfortunate Fernandez fell ill and could not attend the office. During his absence Haji Ghulam Hussain, proprietor Messrs. Noor Mohd. & Co., who had just returned from a pilgrimage, called at the bank and wanted to draw some money. When he found that the balance to his credit was much less than what it should have been, he wanted to know what amounts had been debited to his account. The customer was given inspection of his account. He demanded that he be shown the cheques which had been debited to his account. As soon as the cheques were produced, he pronounced them as forgeries and said that the cheque book containing these numbers was not issued to him. When the application for the cheque book was taken out, it was found that it was an ordinary letter which purported to have come from Haji Ghulam Hussain from Delhi. The client had no difficulty in convincing the manager that he was away to Arabia and could not have been in Delhi at that time.

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KEYS OF SAFES AND STRONG ROOMS

"MR. Bhalla, 'I am not yet well and it is very painful if I try to walk. You just take the keys, put back the cash and lock the strong room."

Mr. Ram Lal, agent of the Popular Bank who said these words to the accountant, continued to be ill for some time more. The accountant could not every time come to receive and to give back the keys. A practice, therefore, developed of the keys being sent and received through the jamadar. Not imagined at the time that the manner in which they had departed from the strict instructions that the officer in charge of the particular keys should maintain exclusive possession of the same at all times would entail disastrous consequences to all concerned.

Opportunity very often tempts weak men to commit crime. It was no wonder that the jamadar who frequently got possession of one of the important keys of the bank's strong room, should have thought of securing possession of the other key and getting duplicates made. The Agent's key he was getting so often. He had no difficulty in getting a duplicate made for the same. His problem was

obtain an impression of the key kept by the cashier.

He was on the look out for a chance to carry out his design. He had not to wait long for such an opportunity. One summer afternoon, when the cashier went to take his lunch in the tiffin room, he took off his coat and hung it on the wall. When he finished his meals and returned to the cash department, he forgot to take the coat with him. After a time, when he required the keys of the strong room, he remembered that the keys were lying in the pocket of his coat he had left in the tiffin room. He asked the jamadar to fetch his coat from the room.

As the jamadar picked up the coat in haste, the keys dashed against the wall. The jamadar who was watching for such an opportunity, at once took an impression of the key before he delivered the coat to the cashier. Possessed of the impressions his next step was to get the duplicates made. This he accomplished with the help of a black-smith friend of his.

Now if he could be alone in the Bank premises for some time, there could be nothing between him and the Cash. He had, therefore, only to wait till the next holiday when there would be no body at the Bank excepting him and the sentry.

When the day came, he managed to send the sentry away for some time on some pretext, and

during that period with the help of the duplicate removed currency notes for over two lacs of rupees.

When the Bank reopened, the Agent, the Accountant, and the cashier, all were surprised to find a large amount missing from the cash which they counted and closed on the last working day, before the holiday.

The matter was reported to the police. For some time they were unable to find any clue. It appeared that they had dropped the matter and that it was going to be one of those mysteries which were never to be solved. This led the jamadar to believe that the police had given up the search for the culprit. He, therefore, started spending lavishly from his newly found wealth.

In fact, the investigation had been transferred to the C.I.D. They were secretly watching the behaviour of every member of the staff. The jamadar's changed way of living aroused suspicions in the mind of the investigating officer.

When the jamadar found that the police were watching him seriously after him he confessed how he took advantage of the inability of the officers to comprehend the consequences of allowing the bank's keys to fall into the hands of unauthorised persons.

He could not raise sufficient funds to make up this loss and therefore, when he was ready with the next remittance for the like amount on the 29th October, 1931, just after the Diwali holidays, he thought of trying to pass on the loss to the Bank. He prepared a paying-in-slip crediting Rs. 2,000/- to the account of Jawaharlal Gopikrishan but in the counterfoil he wrote 24-10-1931 instead of the correct date, 29-10-1931, and Shivnarain Ramchand instead of Jawaharlal Gopi Krishan.

The police wanted to verify his statement. They therefore put the counterfoil purporting to be dated 24-10-1931 with the paying-in-slip dated 29-10-1931 and holding it against the light found from the water mark that the counterfoil really belonged to the voucher dated 29-10-1931.

No body could have dared to put forward such a claim against the Bank, had it been stamping the counterfoils with a rubber stamp which indicated the date and which was placed in such a manner over the perforation that a part of the rubber stamp ran over a portion of the voucher also.

SPECIMEN SIGNATURES

"SIR, I was appointed in 1926 on Rs. 30/- per month. I have put in five years' service but during this period I have not been given any increment. I have a large family to support and find it increasingly difficult to make both ends meet. I shall be highly grateful to you if you will consider my case sympathetically," entreated Mr. Gulati, a savings bank ledger keeper at the head office of the Prabhat Bank Limited.

"I am sorry the times are very hard and nothing can be done for you. Other banks are either sending away a number of people or are drastically reducing their salaries. You should appreciate the kindness our bank has shown in leaving your salaries intact without dispensing with the services of any of the members of the staff," was the disappointing reply of the Manager.

For some months past Gulati had been actually finding it very difficult to provide his family with the bare necessities of life. The illness in the underfed and underclad family was growing. He could not think of any item in his budget which could be curtailed to effect economy to enable him to live within his means. Every succeeding month of his miserable existence meant getting deeper into debt.

In the morning when he had approached the Manager he was in a desperate frame of mind. The winter had set in and he had no money even to buy a little warm clothing for his wife and children.

In the evening when he wearily dragged himself home, the first news that he got was that two of his children were lying unconscious with high fever.

"I cannot bear the agonies of the children. Please call in the doctor," pleaded his wife. He could not show his face to his old doctor; because he had not been able to pay any of his long outstanding bills. Sending for any other doctor meant having Rs. 5/- ready.

In the office there was absolutely no chance of his getting any increment which would give him some relief. At home he could not bear his children dying before his eyes for want of medical aid due to his poverty.

Gulati could not get sleep the whole night. He kept tossing restlessly in the bed. When he got up late next morning he was not the same broken clerk that had trudged home from office the previous evening. He had the bearing of a man determined to overcome all difficulties by means fair or foul.

Very regular in his attendance, Mr. Gulati was a hard working youth always willing to oblige everybody in the Bank. He would offer to assist his officers

in checking totals and interest calculations, made by the ledger keepers in the saving bank department and his officers required little persuasion to pass on such work to him. Things thus went on for years.

During the month of September, 1935, Mr. Gulat suddenly fell ill. In this condition he persisted in attending the office for four days but on the fifth his greatly weakened health did not allow him to leave the bed. Mr. Bakshi was deputed to work in his place.

Mr. Lalubhai—a saving bank depositor of the Prabhat Bank Ltd, presented a withdrawal to Mr. Bakshi, but was startled to hear that his balance was insufficient to meet the cheque. He straightaway went to the Manager and explained to him that though his pass book showed a balance of Rs. 5,000/-, his cheque for Rs. 500/- presented to the new ledger keeper was being returned unpaid for want of sufficient funds.

“For the last three years I have been away to Japan and have had no occasion to withdraw even a single pie from my account,” cried the depositor.

On referring to the account it was noticed that there were a number of withdrawals during the last three years. The Manager then sent for the vouchers to be produced for the inspection of the client. The signatures on the withdrawals appeared to correspond

re Card. The Manager, thereupon hinted to the depositor that he might be making some mistake. The depositor emphatically declared that the specimen signature card produced for comparison was not the original card he had signed at the time of opening the account. He asked the Manager to refer to his original application and to the withdrawals he had made before leaving for Japan.

Even a cursory glance at these papers could show that the Specimen Signature card originally signed by the depositor had been replaced to facilitate unauthorised withdrawals. When the Manager investigated the matter he came across a number of other accounts where the ledger keeper had played the same trick.

The officer was not attesting the customers' signatures on the specimen signature cards and was not careful in keeping these cards exclusively in his own possession. Mr. Gulati could, therefore, replace the specimen signature cards in a number of accounts.

Mr. Gulati was not doing the whole thing single-handed. He had an accomplice in a friend. This friend was operating upon five different accounts under assumed names which were carefully chosen so that all of them appeared in the ledger which Mr. Gulati was managing. Mr. Gulati was passing forged withdrawals from a number of accounts and was

transferring the amounts to one of the five bogus accounts wherefrom he was withdrawing the amounts with the help of his friend.

His procedure of manipulating the accounts was found to be somewhat as follows :

On the depositor's account (say application No. 5555) he would present a withdrawal say Rs. 500/- bearing signatures which correspond exactly to the specimen on the card with which he had replaced the original. He would credit the amount of this withdrawal to one of the five bogus accounts operated upon by his friend. The money would then be withdrawn from the bogus account. If at some time the depositor (No. 5555) turned up to withdraw some money, he would transfer Rs. 500 from another savings bank account (say application No. 3333 where also he had replaced the specimen signature) to this account (application No. 5555). In this way Mr. Gulati continued manipulating the accounts till the end of the half year.

At the end of each half year he was naturally afraid of the depositors coming with their pass books to have the amount of interest allowed on their accounts posted in their pass books. But Gulati had a clever way of safeguarding himself even against this exigency by manipulating the books and making the amounts he had withdrawn.

After the officer had checked the half yearly interest sheets, but before the sheets were totalled, he could change the figure of interest in the five bogus accounts referred to above. For instance, if by correct calculations, the amount of interest came to Rs. 28/4/- he would raise the figure say to Rs. 1,128/4/-. In this way he would manage to get four to five thousand rupees by manipulating the five accounts according to his requirements. As the amount of interest was directly debited to profit and loss account, there was no further check on such debits. The Bank could not know of the amounts he had surreptitiously drawn so often, until the withdrawal presented by Mr. Balubhai put the Bank on enquiry.

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Mr. Ram Lal, agent of the Popular Bank was said these words to the accountant, continued to be ill for some time more. The accountant could not every time come to receive and to give back the keys. A practice, therefore, developed of the keys being sent and received through the jamadar. No one imagined at the time that the manner in which the jamadar had departed from the strict instructions that the officer in charge of the particular keys should maintain exclusive possession of the same at all times would entail disastrous consequences to all concerned.

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ADVANCES AGAINST LIFE POLICIES

A peculiar case in which the Great National Bank had to refund to Manorma Bai the amount they had received from the insurance company on account of a policy which was duly assigned in their favour, illustrates how the bankers have sometimes to face risks from quarters where they least suspect them.

Shanker Vasdev was the head clerk in a big European firm, which had its office on the first floor of the building, the ground floor of which was occupied by the Great National Bank. The firm was keeping a big account with the Great National Bank. Mr. Shanker Vasdev had frequently to go to the Bank in connection therewith. He had introduced a number of clients of his firm to the Bank. The Bank officers were, therefore, anxious to oblige him.

For celebrating the marriage of his daughter he was required to borrow money. He took an advance of Rs. 4,000/- from the Great National Bank against his policy for Rs. 10000/-. Within a year of his taking the advance, he died. At the time of his death he owed Rs. 3,500/- to the Bank. As the assignment was registered with the Insurance Company, the Bank had no difficulty in getting the money on producing proof of his death.

A few months later the Bank was surprised to receive the following notice from Messrs. Goodhue and Smart, solicitors of Manorma Bai, widow of the late Mr. Shanker Vasdev:—

"We are instructed by our client Mrs. Manorma Bai, widow of the late Mr. Shanker Vasdev to request upon you to refund to her the amount of Rs. 10,397/3 received by you from the World Insurance Company on account of policy No. A00510 on the life of the late Mr. Shanker Vasdev. From your letter No. G L 7/18 dated 17th August, 1936, addressed to our client it appears that you are relying upon the assignment dated 17th May 1934 made by Mr. Shanker Vasdev in your favour and registered with the Insurance Company on the 20th of May of the same year. Our client is holding a regular assignment on a stamp paper bearing date 15th January, 1932. We may point out that the assignment takes priority according to the date of its execution and not according to the date of its registration with the Insurance Company.

Our client is, therefore, entitled to precedence over you in respect of the monies due from the Insurance Company under the policy referred to above. Please, therefore, take notice that unless you pay the amount to our client before the end of this month and obtain a clear receipt from her, our client shall be at liberty to take such steps as she may

advised and you will be held responsible for all costs and consequences."

The Bank contested the claim but lost it.

The borrower was dead and nobody could say exactly what was his idea in executing an assignment in 1932 and allowing it to lie among his papers without getting it registered with the Insurance Company. Very likely, when he had got the document drawn up he was thinking of assigning the policy to his wife. Being in good health and expecting that he may have to pledge the policy, he had deferred getting the previous assignment registered with the Insurance Company.

It is said that if the Great National Bank had taken a declaration from Mr. Shanker Vasdev that the policy was not previously assigned, they would have been in a position to challenge the genuineness of the borrower's signature on the assignment produced by Manorma Bai.

COLLECTING FOR CUSTOMER, CHEQUES DRAWN IN FAVOUR OF THE BANK

"We cannot allow one and the same man to prepare a voucher, pass it and even to reverse it. These duties must be definitely distributed. The voucher must be prepared by a clerk and passed by an Officer. In case any entry is required to be reversed, the reversing voucher must be approved by the Manager, and by him alone."

*(From the report of the Inspector
of the Orient Bank)*

Mr. Anderson was the Chief Accountant of the Orient Bank. Brokers coming to him every day in connection with the Bank's business, persuaded him to take interest in speculation on the stock exchange. They put through all his deals without asking for any deposit by way of margin.

When his transactions were small his profits or losses were also small. Unfortunately, he was tempted into purchasing a large block of government promissory notes. The security not only failed to appreciate but declined heavily in price and he was between Rs. 15,000/- to Rs. 16,000/- to the bad. He made good

the loss by borrowing from his friends. In course of time, when they began to demand back the monies lent by them, he started speculating on a still larger scale in the hope of recouping the losses he had sustained. But as luck would have it, this time his losses happened to be greater than before. He had already exhausted all his private resources and could not further borrow even a few hundred rupees from his friends. When the brokers began to press him to square up his account by paying the differences, he found himself in a very embarrassing position.

As a last resort, he hit upon an idea of raising temporary loans by manipulating the Agency accounts. He knew, that the unauthorised entries he made in any of these accounts will not be detected. Whenever he required money he debited the account of one branch, '*to amount remitted*,' passing the corresponding credit to the Premier Bank's account. Against this credit, he used to draw a cheque on the Premier, in favour of the Royal Bank, where he maintained his personal account. When the entry to the debit of one branch account became comparatively old, he would pass it to another branch by debiting the amount to the new account and crediting it to the account of the branch previously debited. In this way an individual entry would never remain outstanding in one branch account for a long time. The new debit would, after

some time, be again transferred to a fresh account and so on.

The Orient Bank had taken special precaution against unauthorized drawings by its officers on accounts with other banks. Two authorized officers were required to join in signing every cheque drawn on the Orient Bank's account with other banks.

Mr. Anderson's position gave him certain advantage over inexperienced and unsuspecting junior officers in his Bank. He would send the cheque, one of them with a voucher debiting some branch for "amount remitted". The Officer would take the amount with the voucher and would unhesitatingly sign the cheque in favour of the Royal Bank. Having thus obtained the signature of another officer, his task of cashing the cheque was easy.

He used to send the cheque to the Royal Bank with a covering letter asking them to place the proceeds to the credit of his personal account. The Royal Bank would have hesitated to collect such cheques, had they been signed by Mr. Anderson alone. But, because the cheques were countersigned by another officer of the bank, they were put off the guard and saw nothing irregular in the cheques. They went on collecting a number of such cheques. The Inspector of the Orient Bank discovered the fraud. The Bank authorities sued the collecting bank.

'conversion,' and though the latter took the case to the highest court, they lost it and had to pay to the Orient Bank, rupees one lac thirty-seven thousand, the aggregate amount of the cheques collected for Mr. Anderson.

The case awakened the banks to the responsibilities of the *collecting banker*.

CHANGING OF VOUCHERS

“**A**rdeskar & Kelkar are absent in the Current Department today, Ram Parshad, you please leave the savings bank department and work on the current ledger No: 3,” ordered the Manager.

Any savings bank ledger-keeper would have taken this as a pat on his back. But, whatever Ram Parshad might have thought about this compliment to himself, he hesitated in accepting the change in his duties.

“Sir, I shall manage the whole of the savings bank department, if you like, but I do not feel confident to work on current account ledger,” appealed Ram Parshad.

As the other man working in the savings bank department was not capable of working independently on the current accounts' ledger, the Manager did not alter his instructions and Ram Parshad had to go and work on current accounts' ledger.

In the afternoon, Mr. Gokhale, a savings bank depositor presented a withdrawal for Rs. 500/- on his account and handed over the pass book. When the new ledger-keeper took the pass book for posting the withdrawal, he found that the last entry dated 12/12/1931 for Rs. 1,200/- appearing on the credit side in the pass

book, was not posted in the account, in the ledger. To be sure he asked Mr. Gokhale how he happened to have an entry of Rs. 1,200/- in the pass book when it did not appear in the ledger.

"What do you mean by saying that the entry does not appear in the ledger? Do you mean to say that I have faked this entry and got your officer to sign it blindly? Take me to the officer, I refuse to talk with you," were the words of the excited client.

The Officer heard what Mr. Gokhale had to say. He had a look at the pass book. It was clear, beyond doubt, that the signature was his own. He had never signed any entry in a pass book without looking to the relative voucher. He could not believe that he had made a mistake. How, then, could it have happened that the entry did not appear in the ledger! He sent for Ram Parshad and asked him to look into the discrepancy and find out whether there was any misposting. In the meantime, the vouchers for 12/12/1931, which the officer had sent for, were received. He turned over the vouchers and found that the only voucher for Rs. 1200/- on that day, was for the savings bank account of one Ram Nath Kapur. Mr. Gokhale did not appear to have deposited anything on that day.

Ram Parshad tried to make the officer believe that it was Mr. Ram Nath Kapur who had really

deposited Rs. 1,200/- on 12/12/31 and the entry wrongly made in the pass book of Mr. Gokhale was trying to make capital out of this misposting in his pass book.

Mr. Gokhale would not have any of the explanations. He simply snatched the pass book from the officer and rushed to the Manager's room. The Manager gave a patient hearing to the complaint of Mr. Gokhale and assured him that, if he really deposited the money, he need not fear. He soothed the ire of Mr. Gokhale and he offered to wait for sometime till the Manager could give him a satisfactory reply.

While the customer was talking to the Manager, Mr. Ram Parshad reassured the officer of the savings bank department that it was a simple case of misposting in the pass book and offered to fetch Mr. Ram Nath Kapur, so that they could produce him before the Manager and have the position cleared.

The Manager sent for the Officer, who explained how he had looked into the ledger, the pass book and the vouchers and had found that there was only one entry on that day for Rs. 1200/- for credit to Mr. Ram Nath Kapur. He further added that he had sent Ram Parshad to bring Mr. Ram Nath Kapur to the Bank with his pass book.

Hours passed and neither Ram Parshad nor

Mr. Ram Nath Kapur appeared. "Who is this Ram Nath Kapur?" queried the Manager, "Look up his address in the ledger and send the jamadar to find out why he has not turned up so far."

Until the jamadar returned, the Bank officials believed that this was a genuine case of misposting but the jamadar's report that there was nobody named Ram Nath Kapur in that locality, made them suspect that there was something wrong about this affair. Their suspicion was confirmed by the disappearance of Ram Parshad. The matter had, therefore, to be taken up in right earnest and the mystery of the disappearance of the credit had to be solved.

The clue was furnished by the account of Mr. Ram Nath Kapur. Vouchers relating to all the credits in his account were taken out. They all showed that the credits were on account of *clearing cheques*. From the clearing register the names of the drawee Banks were ascertained and an officer was instructed to go to the various banks and find out full particulars of the cheques, proceeds whereof had gone to the credit of Ram Nath Kapur's account. The enquiry disclosed that the penultimate endorsement on every cheque, was an endorsement in blank, made by different persons and in the case of the cheque for Rs. 1,200/- by Mr. Gokhale. It was further noticed that the last endorsement was invariably that of

Ram Nath Kapur.

When this enquiry was going on certain of complaints of similar nature were received and Bank fearing that all the credits in the account Ram Nath Kapur might have been fraudulently obtained, wrote to all the depositors whose names appeared as penultimate endorsers on the cheques received for credit of this account, to call at the Bank with their pass books. Unfortunately, the fears of the Bank were confirmed and they had to make good the loss to all the depositors.

The method adopted by Ram Parshad in fraudulently arranging to transfer the amounts of cheques received for credit of various depositors, to the bogus account *he* had opened in the name of Ram Nath Kapur, was as follows :—

Whenever a savings bank depositor came to the Bank with a cheque for over a thousand rupees, he would ask the depositor to simply sign his name on the back of the cheque explaining to him that in addition to his endorsement might make it irregular. In this way he managed that the cheques handed for collection at the Bank were endorsed in blank. He would then make an entry in the customer's pass book and get it signed by the officer. Ram Parshad would return the pass book to the depositor, and would substitute the depositor's paying-in-slip

another paying-in-slip crediting the amount of the cheque to the account of Ram Nath Kapur. He was operating upon this account *himself*. As the system in his Bank allowed the ledger keepers to receive the cheques directly from the customers to be handed over to the clearing clerk, he found no difficulty in destroying the original paying-in-slip and replacing it by a fresh one crediting the amount to the account of Ram Nath Kapur. Ram Parshad was taking care to see that he converted to his own account, run under the name of Ram Nath Kapur, only those cheques in which the last endorsement was an endorsement in blank. On such cheques he would *himself* put one more endorsement in the name of Ram Nath Kapur, before handing them over to the clearing clerk. The officer passing the 'clearing' would, on the strength of the last endorsement, sign the voucher conveying the credit to the bogus account.

Withdrawals on the bogus account were signed by Ram Parshad himself, but were presented for cashment at the Bank by his accomplice.

CUSTODY OF UNUSED CHEQUE FORMS RETURNED BY CUSTOMERS

IT is only a few years since the stamp duty on bills of exchange payable on demand, was abolished. Before that, all cheques were required to be stamped with one anna stamp. In those days whenever a customer closed his account, he used to return the unused cheques to the bank to obtain a refund of the stamps.

The total of stamped cheque forms in the bank used to appear on the assets side of the balance sheet and the bank had to keep a regular account of every form that was received in or handed out. The account used to serve as a complete and correct check on the cheque forms on hand and the clerks in charge of current accounts had to preserve fully the unused cheque forms returned by customers.

The abolition of stamp duty has not fostered the habit of making payments by cheque. It is doubtful whether the banks have gained any corresponding advantage by the growth of the cheque habit. Many of them are now faced with the problem as to how to curb the growing tendency

the part even of the least important depositors, of every now and then, asking for much bigger cheque books than the operations on their accounts warrant. These small account holders, who generally ask for the biggest cheque books, are the persons who are least careful to return unused cheques. When they receive reminder after reminder, they return the unused cheque forms with some servant who deposits them with some clerk or chaprasi in the bank. It is often very difficult for the officer in charge of the current accounts' department, to make sure that he has received all the cheque forms returned by the customer.

The Prosperity Bank was once the victim of a fraud perpetrated by a member of their staff, who managed to get hold of a blank cheque form, out of unused cheques returned by one of their customers.

On account of the enormous volume of business and the number of cheques that were presented for payment every day at the Prosperity Bank, the duty of comparing the signature on the cheques with the specimen on record, was entrusted to an officer, called 'Signature checker,' whose sole duty consisted of verifying signatures on cheques. The Signature Checker, when he was satisfied with the genuineness of a signature, used to put his initials on the cheque besides the drawer's signature. After

the signature had thus been verified, the cheque was sent to the ledger keeper for posting it in the ledger. If the cheque was found to be in order and if the balance permitted of passing the cheque, the ledger keeper used to enter it in the ledger and used to put his initials on the cheque in token of his having posted the cheque. The cheque was then sent to the officer in charge of the current accounts, who used to look to the initials of the Signature Check and of the ledger keeper and used to pass it for payment.

A large group of letters is more difficult to copy than a smaller combination. Signatures are, therefore, more difficult to forge than initials. Balaji, clever, but unscrupulous member of the staff of the Prosperity Bank, conceived an idea of taking advantage of the lacuna in the system of passing cheques obtaining in the Prosperity Bank.

One day Balaji noticed a servant dangling his hands, before the clerks on the counter, a cheque book containing a number of blank forms, to be returned to the Bank, and enquiring as to where it was to be handed over. Balaji covertly called the servant aside, and took from him the cheque book, saying that he would make it over to the proper person. Before, however, delivering it to the officer in charge of the current accounts, Balaji took out one form. The

officer quietly received the cheque book and locked it up in the safe.

After some time Balaji drew a cheque on the account of Ramchandra Gajanand, forged the signature of the customer, copied the initials of the Signature Checker and of the ledger keeper and passed it on to the officer in charge of the current accounts, along with genuine cheques. The unsuspecting officer looking to what he believed to be the initials of the Signature Checker and the ledger keeper, passed the cheque in the ordinary course.

The next morning, while checking the ledger, the ledger checker noticed that a cheque for Rs.2,000/- paid from the account of Ramchandra Gajanand the day before, had not been posted in the ledger. He wanted to get the ledger keeper's explanation for this negligence, but when he found that the ledger keeper was on leave on that day, he made another ledger keeper post the cheque. Seven days after this incident, Mr. Joshi, the proprietor of the firm of Messrs. Ramchandra Gajanand called at the Bank and complained that a cheque for Rs. 2,000/- had been wrongly debited to his firm's account. He pointed out that the cheque number mentioned in the pass book, was not from the series issued to him. When the cheque was produced for inspection he pronounced it to be a forgery. The specimen signature

checker, who was called upon to explain how passed the forgery, maintained that he had not passed that signature and pointed out that his initials had been forged. The ledger keeper explained the cheque had been posted in his ledger by somebody else without his knowledge, and contended his initials on the cheque had been copied.

As the initials had been forged, they afforded a clue, which could enable the crime to be traced to its author. The suspicion fell on the poor obliging ledger keeper who had posted the cheque in another man's ledger on the following day, at the request of the ledger checker.

EXTENDING DUE DATES OF BILLS

“ ‘Instrument’ includes every document by which any right or liability is, or purports to be, created, transferred, limited, *extended*, extinguished, or recorded.”

(Indian Stamp Act.)

Rustomji and Naubat Rai, the proprietors of Messrs. Challak & Co., were smart and painstaking youngmen. They were capable canvassers also. They had started piece-goods business on a small scale but on account of the regular study they made of the tastes of the people and of the tendencies in the market, they were very soon able to have a very good turnover. As the large quantities of goods that they disposed off, created confidence in their ability, most of the manufacturers began to send them goods on D/ A. terms.

In 1930, they had ordered large quantities of British and Italian piecegoods and as usual taken delivery of the consignments by accepting the bills drawn on them by foreign manufacturers. Unfortunately for them, they very soon found the country in the grip of the Non-co-operation movement and the vast quantities of piecegoods that they had imported, became absolutely unsaleable. They represented

to the manufacturers that they were not able to dispose off the stocks on account of circumstances over which they had no control and requested them to instruct the Popular Bank, through whom bills had been sent for collection, to extend the dates of the bills by two months.

The manufacturers believed that the political upheaval would soon subside. They, therefore, appreciating the difficulties of their dealers, asked the Bank to extend the due dates as desired by Messrs. Challak & Co. The Popular Bank got the bills re-accepted by Messrs. Challak & Co, on the dates they had due and noted the new due date on the bills.

When the bills could not be met even on the extended due dates, the Bank threatened to file a suit against Messrs. Challak & Co., for the recovery of the money due on the bills. Messrs. Challak & Co. had by now found that they had lost heavily on those portions of the goods that they had been asked to sell. It was clear that they could not honourably meet their obligations and would have to face insolvency. Rather than allow the proceeds of their remaining goods to go to the creditors, they decided to keep for themselves, whatever they could get by disposing of the goods that were now in their hands. By this time the political agitation had considerably gone down, and foreign goods could be disposed of

more freely and at better rates. They collected whatever they could get from the sale of the goods, secreted it away, and prepared themselves to face the consequences of their having failed to meet the bills, the goods relating to which they had received and disposed of.

The Bank sued Messrs. Challak & Company on the dishonoured bills. But the advocate for the defendants contended that as these bills were re-accepted after the time of payment was extended, these amounted to second instruments requiring fresh stamp. He further submitted that as the bills were not restamped, they were inadmissible in evidence.

Had the officer of the Popular Bank been conversant with the provisions of the Stamp Act, he would not have got the bills re-accepted. In fact it was not necessary to present the bills for reacceptance. It would have been sufficient if the Bank had simply intimated to the drawees that they had received instructions from the drawers not to enforce payment of the bills for 60 days more and reserved for themselves the right of enforcing payment even before the date of the *extended* period if special circumstances rendered it necessary.

NEGLIGENCE ON THE PART OF THE AUDITORS

MR Desai was the General Manager of the small Swadeshi Bank. He was a learned man and was an acknowledged authority on various economic subjects, but he was not a success as a banker. His bank did well for some time while the boom period lasted, but it could not weather the blight of depression.

When the Bank failed to pay dividend for two successive half years, some of the shareholders began to create trouble in the annual general meetings and threatened to carry on propaganda against the Bank in the press. Tired of the attacks they had started, Mr. Desai asked these dissatisfied shareholders to call at the Bank to discuss with him, their suggestions for a better working of the Bank.

He found that the persons who had been agitating were only anxious to get back the monies they had invested in the share capital of the Bank. He thought he could get rid of the bother by purchasing the shares held by these men. He, therefore, bought the shares from some of them.

As soon as it was known that by threatening to go to the press, some of the shareholders had

forced the general manager of the Small Swadeshi Bank to buy their shares at their nominal value more and more people began to try to force him to buy their shares also.

Little did Mr. Desai realize the dire consequences that were to follow his weak-kneed action in surrendering to the unreasonable demands of the disgruntled shareholders.

As was to be expected the shares declined in value still further. Had they touched par he could have sold them off and extricated himself out of the embarrassing situation in which he had found himself as a result of the wrong step he had taken in his attempts to pacify the shareholders.

No camouflage could save him from the nemesis for his departure from the path of rectitude.

When he bought the first lot, he did that from his own resources, but, when more and more people began to force him to buy back the shares of his Bank, he resorted to a subterfuge. He opened an account in his name in the books of his Bank and went on debiting the cost of these shares to that account. Of course, nominally the shares that he had bought, were security for this account. He had paid full price for them, while they were practically worthless. As he was the general manager, and he had obviously adopted this procedure in the interest of the

bank, no body in the Bank, questioned his authority.

The debit balance at the foot of this account amounted to nearly a lac of rupees. He knew that when the auditors would come at the end of the half year, they would not accept the shares of his own bank as security for the advance standing against him.

"What was to be done"? He thought and thought again. Then an idea occurred to him. On the 30th June, he took government securities of the Bank worth about Rs. 1,25,000/-, lodged them with the Great National Bank, drew Rs. 1,10,000/- against them and put his account at the Small Swadeshi Bank in credit balance. Early in the morning of the 1st of July, he again debited his account with the Small Swadeshi Bank, took cash and adjusted the loan he had taken from the Great National Bank, brought back the securities for Rs. 1,25,000/- and showed them to the Auditors when they called in the afternoon.

A bank managed like that could not survive long and was soon wound up.

Mr. Desai surrendered all his private property to square up the overdraft that he had created for buying shares from the dissatisfied shareholders, but this could not save him from going to jail.

The Auditors could not give any satisfactory

explanation for having failed to check the securities on the 30th June, except that they were busy in a bigger institution. They were glad to escape with a strong censure for being so easily gullible.

ADVANCES TO JOINT STOCK COMPANIES

MR Sambh Murti, the manager of the Cochin Branch of the South Indian Bank is today seen in very high spirits. The reason for him to be so excited and proud is that he is advancing ten lacs of rupees against equitable mortgage of first class security, to the Cochin Dock and Warehouse Co. Ltd.

The Cochin Dock & Warehouse Co. Ltd., were making good profits and their shares of the nominal value of Rs. 100/- were quoted at Rs. 2,000/-. With the growth of the port there was great demand for warehouse accommodation and they were borrowing these monies only to meet the expenses of constructing additional warehouses.

But who are these people, who are shouting so loudly in the Bank? What could have offended them so seriously as to make them behave in this undignified manner? Let us enter the bank and try to find what has disturbed these peace-loving people. Do you hear their shouts? "Why on earth did you tell us that every thing was in order and we could have the ten lacs of rupees today! We paid you Rs. 1000/- for getting our title to the properties examined by your lawyer. We paid

Rs. 2000/- more for getting the plans and valuations made by your engineer. Did you not tell us definitely to write to Roberts and Richards to ship the steel beams and other iron material so urgently required for starting the work? They had insisted on our paying cash as soon as the machinery was landed at the wharf at Cochin. The goods have been unloaded yesterday. The money must be paid today, in any case. We will not allow our prestige to suffer. Whatever happens you cannot refuse to pay us the money. You must stick to your promise."

The voices are growing louder. Looking through the glass we find that the Manager is entreating these people to excuse him, but it seems only to excite them further. They are now shouting that they will file a suit against the Bank for damages. It is better that we withdraw from here now and try to find out something tomorrow. None of them will be in a mood to give us any information today.

It transpired the next day that Mr. Sambh Murti, after getting the Company's title to the properties thoroughly investigated by the Bank's legal advisor, had got their properties surveyed by a competent engineer and had promised to pay them the whole amount of ten lacs of rupees that day, on their depositing the title deeds. When the Managing director and some of the other directors of the Cochin Dock &

Warehouse Co., Ltd called at the bank, the Manager sent for the accountant and asked him to prepare the necessary documents to be executed by the company. The accountant enquired whether the Memorandum and Articles of Association of the company authorised them to raise monies on the security of the properties. It was found that they did not. Under the circumstances the Bank could not advance a single pie against the security of the property. The directors offered to be personally responsible but the manager could not accept this proposal, because it was beyond his power.

The directors suggested that they should be paid the money as promised and they would get the Memorandum and Articles of Association amended accordingly later on, but the accountant refused to have anything to do with the transaction, which was ultra-vires the company and ultra-vires the directors.

On account of the failure of the Manager to look up the Memorandum and Articles of Association of the Cochin Dock and Warehouse Company, Limited, the company did not get the money in time though they had spent nearly Rs. 3,000/- in complying with the bank's formalities and had obtained the necessary assurance from the Manager.

Since that day they started running down the Bank at every opportunity.

REGISTERING THE CHARGE ON THE ASSETS OF A JOINT STOCK COMPANY

ONE of the items of the agenda of the meeting of the Board of Directors of the Luxmi Bank that day was the proposal to make a provision of a sum of rupees one lac from the Profits and Loss to cover a shortfall which they expected in the Loan Account of the Indian Chemical and Pharmaceutical Co. Ltd. which had recently gone into liquidation.

When the Directors sanctioned the advance two years ago, it was distinctly stipulated that the Company will give the Bank a first charge on the floating assets of the Company. It was later reported to the Board of Directors that the Company had actually executed the document creating the charge.

The Directors were now told that the Company had gone into liquidation and the Bank tried to take the possession of the plant and machinery of the Company but Mr. Manubhai Jagjiwan, a creditor of the Company who had got his charge registered with the Registrar of the Joint Stock Companies, demanded possession of the plant, building and machinery and the Court

had recognised the priority of his claim.

The Directors then wanted to know :—

- (1) Why the document creating the charge in favour of the Bank was not properly registered within 21 days of its execution as required by the Indian Companies Act
- (2) Who was responsible for this negligence
- (3) What action was taken against him?

The explanations given by the various officers were produced before the meeting. These showed that the system of checking the securities was neither proper nor effective and the omission had been due more to lack of knowledge than to wilful negligence. The Directors had, therefore, quietly taken for a large provision to be made for the losses expected on the advance made to the Indian Chemical and Pharmaceutical Co. Ltd.

TEMPORARY PARTING WITH SECURITIES

WILL you please let me have the title deeds of my property on Hornby Road for a day? There is some dispute with the Municipality and these have got to be produced. "

"Oh yes, sure, you can have them by all means."

With these words, Mr. Johnson, the manager of the North Town Bank, readily delivered Hiralal Maniwala, the title deeds of the property worth about 15 lacs of rupees, though Hiralal still owed nearly Rs. 5,00,000/- to the Bank against that property.

The banking reader must be impatient to know how the manager could deliver the security when the borrower still owed the bank such a large sum of money. Well, it must be admitted that, though subsequent events may have proved the action of the manager to have been unwise, certainly there were extenuating circumstances. Hiralal was a partner of one of the richest firms in Bombay—a firm that could easily get accommodation for a couple of lacs of rupees without depositing any security. The degree of influence which Hiralal's father commanded in the commercial circles of Bombay, had rarely been equalled by anybody else before. Hiralal himself was known to be a well behaved youngman. When

a gentleman like Hiralal and son of an illustrious millionaire asked for delivery of the title deeds of one of his properties on a perfectly plausible excuse from the bank with which his firm had a long and honourable connection for nearly fifty years, Mr. Johnson could not refuse him. It must also be remembered that the property was pledged to the bank in equitable mortgage and the manager had to appreciate Hiralal's natural anxiety that the Municipality or anybody outside the Bank should not come to know of the charge he had created.

Mr. Johnson expected that the documents would be returned to him, if not on the same day, at the most on the day following. The day immediately following was a Sunday. On Monday the manager remained very busy. It was on Tuesday only that he remembered that the title deeds had not been received back. He then learnt that Hiralal had gone out of the station and his father had already left for Vienna to undergo an operation.

The manager could at once see that Hiralal had played a very dirty trick on him. It was necessary for him to take some effective action, as soon as possible, and have Hiralal arrested before he had squandered away or secreted the money he might have raised on the deeds elsewhere. He soon discovered that Hiralal had deposited the title deeds

with the Great Indian Bank and taken Rs. 450,000/- from them against the security of the same. Mr. Johnson had now no other alternative but to report the matter to the police and have Hiralal traced.

Hiralal, not being a hardened criminal, was soon tracked to Mussoorie, and rupees two lacs were recovered from him.

The disgraceful action of Hiralal destroyed completely the credit of the firm in the market and it had to be wound up.

The North Town Bank wrote off quite a large amount as bad debt.

CONFIRMING ENDORSEMENTS ON CHEQUES RECEIVED FOR COLLECTION

WHEN a person gets a cheque drawn payable to him or to his order, he must endorse it. The signature must tally letter for letter with the spelling of the payee's name in the body of the cheque. Some of the customers however, do not take care to sign properly and in such cases the bank on which the cheque is drawn refuses to pay them. When however cheques are received for credit of the payee's account the collecting bank gives a certificate on the back of the cheque that the proceeds are credited to the payee's account. This obviates unnecessary correspondence and delay in cashing cheques as the paying bank generally pays the cheque on the responsibility of the collecting banker. It has however to be admitted that in some cases this certification is not done with as much care and circumspection as is required. The result is that the banks are some times saddled with losses which could have been easily avoided.

The Indian Cotton Mills Ltd., were running a big Cash Credit Account with the Popular Bank. Shamrao, one of the biggest cotton dealers, was also running his account with the same bank. On the 7th January 1931, Shamrao called at the Bank and

handed to the Manager a cheque for Rs. 50,000/- drawn by Indian Cotton mills Ltd., on The Northern Bank Ltd., payable to Shamrao or bearer and requested the manager to credit it to the account of the Mill. A month later, Shamrao wrote a letter to the Bank asking them to let him know the balance at the foot of his account. The Bank informed him that a sum of Rs. 400-3-2. stood at the credit of his account. Mr. Shamrao then sent a telegram expressing surprise and claiming that his balance should have been over fifty thousand rupees.

The Bank could not understand his contention and therefore asked him to explain what items he had paid into his account which could have increased the balance to such an unusually large figure. Shamrao demanded credit for the cheque for rupees fifty thousand which he had handed to the Manager on the seventh of January.

When the Bank refused to give him credit for the amount he filed a suit against the Popular Bank and to the surprise of the Bank produced through the Northern Bank the cheque for rupees fifty thousand which was payable to him or bearer and which bore on the back of the cheque a certificate from the Popular Bank that the amount was credited to the payee's account. The Bank was taken aback with the unexpected proof produced by Shamrao in support

of his contention and could not give a proper reply. The Indian Cotton Mills had in the meantime failed. The suit was decreed against the Bank.

In the appeal, however, the Popular Bank satisfied the court that according to the books of the Indian Cotton Mills Ltd., who had drawn the cheque the amount was really meant for the account of the Mills where it was actually credited. The decision of the lower court was therefore reversed. But it unnecessarily cost the Bank hundreds of rupees.

It is however, a mystery how the certificate happened to be given in that manner by the Popular Bank. The only plausible explanation seems to be that it was the brain wave of some clerk who was anxious to see that the cheque was not returned unpaid. The clerk stamped it "Credited to payee's account," which in his opinion, was the best way of avoiding any objection being raised by the paying bank. It appears that the officer while signing the certificate did not have the relative voucher before him.

FORGED LETTER OF CREDIT

ONE of the best taxis of the Celestial Hotel, the most luxurious hotel in the East, pulled up at the main entrance of the palatial building of the World Exchange Corporation; the driver stepped aside, held open the door, and a middle-aged man dressed in up-to-date American style got out and asked to be taken to the room of the manager.

The American gentleman produced his letter of indication and a letter of credit from the Great Bank of New World, Chicago, for £. 52,000. He introduced himself as George Drinkwater, the holder of the Letter of Credit, and gave out that he was interested in electrical undertakings and was picking up large blocks of shares in an important electric supply corporation. He explained to the manager how he had succeeded in buying a large number of shares in a leading electric supply company in India and was negotiating for a batch of shares in another company. The tourist drew a draft for £. 10,000 and after a good deal of higgling over the rate of exchange cashed it. While going away with the money he complained that it had taken him pretty long to get cash and requested the manager to instruct his staff to pay him the amount much quicker if he happened to call for money the next day, as he was expecting

a bargain for another block of shares to go through. He called at the Bank again on the following day and cashed a cheque for £. 11,000.

"James, I feel something fishy about the Yankee who has been drawing such large sums under the letter of credit from Chicago. I have never seen a tourist draw such large amounts."

"Why worry, John. These guys have more money than sense. For all I know, he might have paid all the money for a pig. You look to the letter of credit."

John Flaming, the Sub Accountant, who had dealt with the cheques drawn by George Drinkwater, could not accept his colleagues advice not to bother about the large payments made to the American gentleman on two consecutive days under the letter of credit.

He went to the manager and expressed his suspicions. The manager informed him how he himself was surprised when the tourist wanted to draw such a large amount and how the millionaire had explained to him that he was drawing these amounts to finance his purchases of Indian securities.

Mr. Flaming still persisted in maintaining that he felt there was something fishy about the foreign visitor and obtained the manager's permission to cable to the Great Bank of New World, which had issued

the letter of credit, to find out whether they had really issued that Letter of Credit for £.52,000.

In the meantime the manager tried to ascertain from the brokers whether any large blocks of shares in electrical undertakings had changed hands. He was astonished to know that shares of electric companies were neglected and if a large order (specially from an outside interest) had come on the market, they would have all risen by tens of points.

Next morning brought the cable reply from Chicago: "Letter of Credit John Drinkwater dated 17th January 1935 issued for pounds fifty two only."

The manager of the World Exchange Corporation at once arranged to inform the branches of all the important banks of the details of the fraud practised on his bank and requested them to hand over George Drinkwater to the police should he try to negotiate further drafts under the faked letter of credit at their branch.

"Did you say the Air Mail for Batavia was delayed and was not likely to leave till two this afternoon? In that case I would like to rush to the Bank and get a few rupees." With these words George Drinkwater left at 10 O'clock the Palace Hotel in Rangoon for the Giles Bank where he had cashed a cheque for £. 1,000 only the day before.

"Mr. Wilson, just see this telegram. I am afraid

they are referring to the same letter of credit under which we paid that American tourist £. 1,000, yesterday. Did he say which hotel he was putting in? We must inform the police."

Before Mr. Wilson could say anything in reply to the manager, George Drinkwater forced himself into the room without any formality. The officers at once recognised the crook. The manager commenced higgling over the rate of exchange and by starting conversation on other topics managed to detain him till the accountant had time to summon the police.

The cheat was arrested and practically all the amount he had obtained from the two banks on the forged letter of credit was recovered from his suite of rooms in the hotel.

The Giles Bank had negotiated his cheque for £. 1,000, because the World Exchange Corporation had cashed his two cheques for £. 21,000.

The telegram they received from Calcutta made it clear that the Letter of Credit itself was a genuine document but the cheat had fraudulently raised the amount and had left the other details as they were.

The Great Bank of New World which had issued the Letter of Credit had indented the amount in words and figures and this was till then, regarded quite safe. "How had the swindler succeeded in

anging the figures?" The question was engaging the attention of the officials of all the banks.

The confession of George Drinkwater solved the mystery. He explained to the court how he had first inscribed the original amount in words and figures impressed by a machine which only indented the letters and figures but did not actually perforate them. After this he levelled the surface and then perforated the amount £. 52,000/- in words and figures.

ADVANCES AGAINST EQUITABLE MORTGAGE OF PROPERTIES

Manager: "Mr. Green, why did you take the letter on the day he brought the title deeds? In cases of such large advances you should have carefully followed the standing instructions and taken such a letter either before or after the deposit of the title deeds. No doubt, you did it with the best of intentions but it has cost the Bank five lacs of rupees."

In spite of the warning given by Indian statesmen and currency experts, the Babington Smith Committee by their majority recommendations, fixed up the sterling value of the rupee at two shillings. They little realized what catastrophic consequences were to follow their fixing the rupee at the high level at which they had pegged it. The prediction of Dadabhai Dalal came true much earlier than could be expected and with a suddenness that made the consequences more calamitous than ever. The fixing of the rupee at the unwarrantedly high level gave a very great stimulus to imports from Great Britain and heavy orders were booked by Indian firms with British manufacturers.

Before, however, the goods reached India, the highflung exchange had dropped more sharply than it had risen, and the people who had ordered goods, were called upon to find double the amount of what they were expected to pay according to the terms of the ratio so recently fixed by the Government of India. The Government could do nothing to effectively check the drop in the value of the Rupee, and the merchants who had ordered the goods relying upon the ratio fixed by the Govt., had to suffer very heavy losses. The abysmal fall in the value of the rupee dragged low down into the depths of adversity some of the oldest and best firms which had been the highest lights in the mercantile world.

Messrs. Surajmal Ramchand were one of the biggest firms in Calcutta, and many of the Banks were allowing them clean accommodation for lacs of rupees. Mr. Frazer, the manager of the Northern Bank had spent a number of years in India and China and was regarded as an authority on questions connected with Eastern currencies. He could therefore foresee that the artificial prop which had been given to the rupee could not last long and consequently the rupee was bound to tumble down and find its own level, thus bringing ruin to many of the business houses. He therefore advised his office to have all the clean commitments covered by securities.

The Proprietor of Messrs. Surajmal Ramchand held Mr. Frazer in very high esteem and when the latter explained to him that the Bank's head office wanted that all clean accommodations should be covered by deposits of securities as far as possible, the Seth gave the Bank title deeds of his properties worth ten lacs of rupees.

The whirlwind of insolvency which passed over the leading commercial cities of India swept off their feet even the best managed firms. Messrs Surajmal Ramchand were no exception. The news of the failure of a firm of their standing shook the mercantile community. Many firms that were tottering also collapsed with it. There was a regular panic in the market, and it became more intensified when the banks withdrew the facilities already given and began to demand further securities for the existing advances.

In course of time, the panic died down and conditions began to return to normal. The Northern Bank was thinking of commencing to sell the properties equitably mortgaged with it by Messrs. Surajmal Ramchand, when its authorities were surprised to get a letter from the Official Receiver calling upon the Bank to hand over to him, for the general benefit of the creditors, the title deeds of the properties which Seth Ramchand had deposited with them.

When the bank opposed the claim the Official Assignee produced from the insolvent firm's record a copy of the letter which Ramchand had passed to the bank at the time he deposited the title deeds with the bank and contended that the letter constituted a mortgage deed and as such should have been properly registered.

The bank had to give up the title deeds and rank as an ordinary creditor of the firm, and receive its pro-rata shares of Rs. 5,208-5-4, against its claim for Rs. 5,03,123-4-9.

PROMPTNESS REQUIRED IN COL-
LECTING CHEQUES DRAWN ON
NON-CLEARING BANKS

"**W**E are in receipt of your letter No: A-20/31 of the 9th instant returning to us the cheque for Rs. 1,100, drawn by Messrs. Ambalal Dalpatram & Co. on the First National Bank. This cheque was lodged by us exactly at 10-30 yesterday morning. It appears it was duly presented by you to the First National Bank before it failed yesterday afternoon. As a matter of fact, it seems that the cheque was actually passed for payment by the First National Bank before it closed its doors. It is, therefore, evident that if you failed to get the amount of the cheque, it was due to the negligence of your collecting cashier who seems to have presented the cheque and left the Bank without waiting to receive the payment when offered. Under the circumstances we regret we cannot see our way to receive back the unpaid cheque, which is returned herewith. Please credit our account with the amount of the cheque.

This was the letter with which the Universal Trading Corporation sent back to the Standard Bank the cheque which the Bank had returned to the firm. The Standard Bank could not dispute the facts stated in the letter.

What had actually happened was this. The cheque for Rs. 1,100/- was paid into their account, by the Universal Trading Corporation on Monday the 9th January, 1932 exactly at half past ten. It was the practice of the Standard Bank to send out one cashier with all the cheques on the non-clearing banks. He would call at the different banks in turn, and after receiving a token for each cheque or batch of cheques presented by him to the bank used to proceed to the next bank. On his way back in the afternoon he used to collect the amounts of the cheques lodged by him in the morning. Thus the man, who set out at about 11 O'clock in the morning for obtaining cash payment of cheques on banks, which were not admitted to the clearing, used to return to his Bank at about 3.30 in the afternoon.

On the 9th of January, 1932, the cashier, who started for collecting the amounts of such cheques from the different non-clearing banks, reached the First National Bank at about 11 O'clock. As usual he handed over the cheque, received the token and proceeded to lodge the remaining cheques with the other banks. On his return at about 3 O'clock he found that the Bank had closed its doors in the meantime. Instead of getting cash he got back the cheque with the remarks: "Payment Suspended by the Bank." Had the cashier waited at the First National Bank

for half an hour, when he presented the cheque in the morning, he would have received payment of the cheque. The cheque was actually passed for payment by the Bank before 12 O'clock, but as the cashier of the Standard Bank had not turned up for receiving payment of it upto the time the Bank closed its doors at 1 O'clock, the amount was credited to the customer's account and the cheque was returned unpaid.

The Standard Bank pleaded practice and declined to give credit to the Universal Trading Corporation for Rs. 1,100/-. As the firm knew that the drawers of the cheque who were already financially weak, were likely to be hit harder by the failure of the First National Bank where they kept their current account, they thought it better to file a suit against the Standard Bank.

From the evidence produced, the court was satisfied that the cheque was actually passed for payment before the Bank went into liquidation and had the Standard Bank's representative waited there for about half an hour after presenting the cheque, he would have received the payment. The court, therefore, decided against the Bank and directed it to make good the loss suffered by the Universal Trading Corporation on account of the failure of the Bank representative to collect the amount of the cheque without undue delay.

HUNDIS ON BOGUS PARTIES

"However highly placed an officer, it is not in the interest of the bank to tempt him too much by affording him unlimited scope for manipulations."

Khan Bahadur Hafiz Hussain was the treasurer of the Southern Bank, Benares. He was a man of means and had deposited a large cash security with the Bank. On account of his long and honourable service he was greatly trusted in the Bank and was highly respected among the public.

His daughter was married in Calcutta. Her father-in-law had once made over a lac of rupees on the Stock Exchange within a few days. This set Khan Bahadur thinking as to why he should not also try his luck. With the help of his relative, he entered the share market and as his initial transactions brought him unexpectedly large profits he became a victim of the share mania.

All days are not alike. The tide soon turned. Every time he tried to make up his previous loss, he got more and more involved in debt. All the assets that he could easily mobilise were exhausted in meeting the losses. He could not promptly pay up the differences. The brokers began to clamour for settlement. He was faced with the danger of being

publicly disgraced by being dragged into the insolvency court.

How he wished he had remained satisfied with the even tenor of his steady but honourable life and not diverted his attention to *get rich-quick* methods.

Manager: "Khajanchi Sahib, can't you invest something in discounting hundies to respectable shroffs as the Metropolitan and the Provincial Banks are doing? I think we can easily invest a few lacs of rupees."

"Well, Sir, it will not be difficult. Tomorrow I shall introduce to the Bank two or three leading money lenders from whom you can take hundies for scores of thousands of rupees," replied the Treasurer.

True to his promise, Khan Bahadur Hafiz Hussain that week opened the accounts of:—

1. Devi Dial Ram Kishen.
2. Hazarimal Ramchand.
3. Sanwal Ram Gokal Chand.

and submitted to the Manager financial reports which placed the worth of every one of these parties at not less than five lacs of rupees. On the day the accounts were opened, Khan Bahadur Hafiz Hussain brought from each of these firms scores of hundies amounting to lacs of rupees and told the Manager that the Bank had only to make up its mind about the

amount it desired to give to every one of the shroffs and then to pick out the hundies it wanted to discount.

"I cannot make head or tail out of them. Khazanchi Sahib, you can select the best for Rs. 25,000/- from each of the lots. See that they all mature within ninety days and bear at least two signatures as required by the Head Office", was the indeterminate reply of the Manager.

The amount of bills discounted to each of the three above firms soon exceeded a lac of rupees. After three years the Manager went on long leave and his place was taken by another comparatively junior officer, who had a certain prejudice against hundi business. As the Bank had invested quite a large sum of money in discounting hundies, he started a careful study of that section of the investments with a view to find out what kind of transactions had given rise to instruments then held in the bills' portfolio of the bank, and to assure himself that they were not accommodation bills. He found that there were few changes in the names of the drawers and the endorsers and practically most of the hundies were being renewed as they fell due. He, therefore, made it clear to the Treasurer that he would gradually see the balance considerably reduced and would under no circumstances be prepared to allow any

hundi to be renewed in the name of the same draw and the same endorser unless they called in person and explained.

With the inauguration of this new policy, number of hundies remained unpaid on due date. The last endorsers to whom the bills had been discounted could not be traced. Within a month practically the whole lot of the hundies in the hands of the Bank was transferred to the 'Dishonoured and Past Due Account'.

Notices of dishonour were served on the drawers who appeared to be well-known firms. "We never borrow on hundies and we have never executed an usance bill in favour of anybody," was almost a uniform reply received from every firm whose name appeared as drawers on the hundies.

When the case had dragged on for some time Khan Bahadur Hafiz Hussain confessed having fabricated the bogus hundis. He admitted that, to make the paper offered for discount appear more attractive, he had prepared the hundis with the names of the leading firms as drawers and had forged their signatures.

He further explained how, to facilitate drawing the proceeds of these bogus hundis discounted by the Bank, he opened three accounts in the name of fictitious firms styled Devidial Ramkishan, Hazarim

Ramchand. and Sanwalram Gokalchand, and how taking advantage of his position as Treasurer, whose duty it was to verify all vernacular signatures, managed to operate on these accounts himself without anybody's knowing it.

CARE OF INSURED PACKETS

WITH the progress of education and science the crook has also improved his methods of relieving people of their valuables. So polished and clever are the ways in which the cheats now-a-days carry out their nefarious operations in the twinkling of an eye, that they leave practically no clue or evidence which may help the police to bring the charge of theft home to the miscreants.

The banks and other financial institutions which despatch and receive packets containing G. C. Notes, gold bullion, or other valuable securities, must see that their representatives, who accompany the consignments which are being despatched or who go to take delivery of the parcels from the railway station or from the post office, are really smart people who cannot be easily hoodwinked.

At the Metropolitan Bank, the duty of getting insured packets from the post office was entrusted to Mr. Thomas De'souza, an old employee who had put in more than 25 years' service with the Bank and whose honesty was absolutely beyond question. He was a jolly old man fond of cracking jokes and making people laugh. Every day, when people gathered to receive the delivery of the parcels, they

looked to Mr. De'souza to enliven the company with jests.

Last year a gang of smart swindlers marked him down as their prey. They watched his movements very carefully, studied his weaknesses and noted the days on which he was getting specially large number of registered and insured covers.

It was Monday and the mail which was being delivered was particularly heavy. The persons receiving the mail were absorbed in carefully examining and counting the items handed over to them, others were eagerly waiting for their turn. Suddenly there was a sound of coins scattering on the floor. A man walking inattentively had dashed against another person who was carrying rupee coins and small change loose in his hand. The impact had thrown the cash on the floor.

Mr. De'souza who had at that time just received the insured parcels meant for his Bank had placed them on the counter and was putting them in a bag. As soon as he heard the sound and saw the commotion, he could not resist the temptation to be humorous. He turned his back to the parcels and started shouting: "Help yourself. Take what you can get." And the company as usual applauded the jest.

When Mr. De'souza resumed the work of putting the packets in the bag, he was startled to find that

somebody had filched three of his insured packets.

Unfortunately for the gang, they repeated the same trick at other places. The police had by now received reports of their manner of operation and by watching the activities of the accomplices, who used to manage to throw coins on the floors of banks, post offices etc., with a view to divert the attention of their intended victims, soon traced the real rogues, who used actually to remove the valuables.

CARE OF CLOCKS

A reference to the necessity of maintaining accurate clocks in a banking establishment would appear rather an overcautious advice. But cases are known where banks have lost fairly large sums because their clocks did not show the correct time.

Jalal Din, proprietor of Messrs. Walli Mohd & Co., once a wealthy business man, had been running large and satisfactory accounts with the Colonial and the First National Banks during his prosperous times. In spite of the fact that he had lost almost everything, the banks were granting him temporary clean accommodation for a few thousand rupees.

The Manager of the Colonial Bank was going on leave, and he was anxious that before he left the place, Jalal Din should repay the clean overdraft that was running against him. Though he tried his best, Jalal Din could not raise the necessary amount, but just to appease the Manager gave him a cheque for Rs. 3,000/- drawn on the First National.

The Manager of the First National was a very smart officer. To prevent any forged cheque for a big amount being cashed through the clearing, he used to glance at the clearing cheques as soon as they were received in the Bank. If he found that there was any cheque which appeared to have been

drawn without providing sufficient funds, he would at once make enquiries and satisfy himself that the drawer had adequate funds in his account. As soon as the Manager saw that Jalal Din's cheque had been presented, he enquired whether the drawer had put in his account funds to meet the cheque and when told that not a pie had been received for credit of the account for a long time, he gave peremptory instructions to return the cheque unpaid at once.

The cashier could not comprehend the necessity of returning that cheque with extra promptness. He sent the cheque along with other cheques, received in the clearing, which were being returned unpaid. The Bank's clock was running ten minutes slow. The peon who went with the "Returned" cheques, was delayed at one of the banks and when Jalal Din's cheque reached the Colonial Bank, they found that the peon had reached their bank five minutes after the time fixed for returning of the dishonoured cheques. The Colonial Bank therefore refused to accept the cheque.

Ordinarily the Bank would not have hesitated to receive back the cheque as they had not actually paid out the amount during the five minutes, but as they were getting rid of what was very likely to be a bad debt, they declined to accept the cheque which they could legally refuse to take. The debt of Jalal Din

at the First National Bank was therefore doubled, while his liability at the Colonial Bank was extinguished. The First National Bank had ultimately to write off a large part of the debt only because their cashier did not take care to see that the clock in the office showed the correct time.

ADVANCES AGAINST HIDES & SKINS

THE facts that came to light after the failure of Haji Jan Mohd. Haji Shakur & Co. demonstrated to the banks the length to which the borrower can go if he is only inclined to cheat, and if the commodity which he pledges, happens to be such, does not admit of easy verification of its quantity or value.

The firm was old established and enjoyed very good credit in the market. It had been dealing with the Metropolitan Bank for a number of years and its dealings had been very satisfactory. The Bank was therefore advancing the firm 70% of the value of the stocks of hides and skins lying with the Bank's Clearing Agents at Madras and Calcutta.

The firm had arranged with the Bank that its representatives all over the country would be sending bales of hides and skins to the Bank's clearing agents at the port towns, and the bank would be advancing 70% of the value of the goods, after these had come into the possession of the Bank's Clearing Agents. The borrowers themselves used to prepare invoices on which the Bank depended for the description, quantity and quality of the goods.

The firm had a large export trade with Italy,

France and America. Most of the consignments were shipped to these foreign countries under confirmed Letters of Credit.

As the number and the aggregate amount of confirmed Letters of Credit in their hands kept on increasing, the Bank went on enhancing the cash credit limit allowed to Messrs. Haji Jan Mohd Haji Shakur & Co. against stocks lying at the port towns.

One day the firm suddenly closed its doors. The proprietors were found to be absconding. When the Metropolitan Bank proceeded to dispose of the stocks of hides and skins pledged with it, the Bank discovered that the borrower had defrauded the Bank of large sums by giving false invoices:

(a) While the bales actually contained kid skins the firm prepared and handed to the Bank invoices which showed the contents as goat skins.

(b) The firm had, in fact, given the bank useless or third class skins and had invoiced them at the prices current for first quality pieces.

(c) Whenever the Bank had insisted on the firm's clearing the old stocks it had arranged to take delivery of the bales at the port towns and had again sent back the same through one of its representatives; thus making the Bank believe that it had taken delivery of the old stocks. A large part of the stock was therefore almost unsaleable.

The Metropolitan Bank learnt at a very great cost that it is very risky to make advances on the strength of the borrowers' *own* invoices against goods such as hides and skins, the quantity, quality and value of which cannot be definitely and easily ascertained.

REPUTED OWNERSHIP

"I have every sympathy with the authorities of the Bank who had taken precaution to draw out clear instructions for the guidance of their godown keepers; but I cannot allow the innocent plaintiff to suffer for the acts of the Bank's employee."

Messrs. Shiv Narain Hukam Chand were a big firm of grain dealers in Cawnpore. Early in the wheat season of 1933, they bought large quantities of wheat in the Okara market. As Messrs. Shiv Narain Hukam Chand had large financial resources of their own, they were not required to pledge the goods with any bank. They remitted full price of the goods to Messrs. Chuni Lal Ram Partap, their commission agents, and asked them to arrange for its storage.

When the representatives of the banks in Okara saw that Messrs. Chuni Lal Ram Partap were having large stocks of wheat in Okara, every one of them began to press Seth Chuni Lal, the proprietor of Messrs. Chuni Lal Ram Partap, to avail of some accommodation from his respective bank.

In the beginning the Seth stoutly refused to pledge any part of the goods to the banks but the godown keepers of the various banks kept on pestering

him with entreaties to avail of accommodation against stocks. All of them promised every facility. Chuni Lal was tempted into entertaining ideas of fraudulently raising money on the security of the goods lying with his firm and speculating with the large funds so obtained.

There was one great difficulty in the way of his mortgaging the stocks which he held on behalf of his principals. They were sure to send their representative from time to time to inspect the stocks lying in Okara.

When Mr. Rup Chand, godown keeper of the Paramount Bank broached the subject, Seth Chuni Lal expressed his willingness to oblige him by taking accommodation from his bank provided he agreed to hand over the keys of the godowns for a day or two whenever required. The Seth explained that he would not ordinarily require the keys, but if any of his relations, particularly the father-in-law of his son or the father-in-law of his daughter, were expected, he would at once send for the keys. It was further agreed that as soon as the keys were delivered the godown keeper would take down the Bank's signboards from the godowns. The poor unsuspecting bank clerk could see nothing unusual in this apparently simple request. He readily agreed and faithfully carried out his promise by delivering the keys.

and pulling down the Bank's sign boards whenever the borrower desired.

Messrs. Shiv Narain Hukam Chand were occasionally sending their clerks to check the quantity and quality of the stocks held on their account by Messrs. Chuni Lal Ram Partap. As they generally used to reach Okara after giving previous intimation, Lala Chuni Lal used to get enough time to secure the possession of the keys and to have the Bank's sign-boards removed.

Messrs. Chuni Lal Ram Partap suffered heavy losses, far beyond their capacity. When Messrs. Shiv Narain Hukam Chand heard of this, they sent their representative to take possession of the stocks of wheat held by the Okara firm on their behalf but the Bank resisted the claim of the rightful owners.

With the help of the leading local merchants, Messrs. Shiv Narain Hukam Chand proved to the satisfaction of the Court how the godown keeper of the Paramount Bank was always handing over the keys of the godowns and removing the Bank's sign-boards every time their representatives came from Cawnpore, and was thus aiding the borrowers in deceiving the owners of the goods by keeping them in the dark about the lien of the Bank on the stocks.

The Court ordered the Bank to deliver the goods to Messrs. Shiv Narain Hukam Chand.

The case illustrates vividly how banks sometimes suffer heavy losses on account of the conduct of their *honest but over-zealous* subordinates. The Bank had to write off the debt only because its go-down keeper could not comprehend the consequences of his action in allowing the facilities in contravention of the strict instructions issued for his guidance.

TRUST RECEIPT FACILITIES

EXCHANGE Banks have played an important part in financing the import trade of India during the last forty years. One of the important facilities that they have been allowing to the leading importers is known as the "Trust Receipt Facility."

When the goods ordered by the Indian importers arrive in the port, it is not possible for all of them immediately to pay for and take delivery of the documents covering the goods. In such cases the importer has to allow the Bank to clear the goods, and store them in the Bank's godowns. This means additional expenditure on account of cartage, godown rent, etc. The dealer, if he pays cash down to the bank prior to receiving possession of the goods, is seriously handicapped in his business as a large part of his capital is locked up in payment of the bill even before the goods reach his godown.

In case of customers of high repute and good standing, the banks have been handing over the shipping documents to the drawees as soon as they had accepted the bill and have been taking in exchange certain documents called 'Trust Receipts.'

By the terms of the Trust Receipt it is provided that, in consideration of the bank having handed over the shipping documents in respect of goods

hypothecated to them, the drawees of the bills undertake to handle, store and hold the goods until sale as trustees for the bank and in the event of sale to receive the gross proceeds as trustees for the bank and to forthwith pay them in full to the bank.

This facility is really very valuable to the importers. Unfortunately, a number of businessmen of undoubted integrity displayed a cynical disregard of the sanctity of contracts and abused the facility. Some of them disposed of the goods received by them on Trust Receipts but failed to pay the proceeds to the bank which had trusted them. Others pledged the goods with other banks and raised money on the security of the goods which they were holding as trustees on behalf of the bank. In many cases where these delinquents were hauled up before the courts, they pleaded that the Trust Receipts were mere formalities and the conditions laid down in the Trust Receipts were never meant to be followed seriously. They succeeded in pointing out that the main clauses in the Trust Receipt agreement had never been adhered to in practice. For instance, banks had never connected the payment received from the customer with any particular case or cases of goods delivered under the Trust Receipt nor had they insisted on the customers' paying forthwith the gross proceeds to the bank in full.

The case of the Southern Bank *versus* the Northern Bank brought to the notice of the banking world all the defects of the Trust Receipt arrangement. The Southern Bank was getting bills from England. It was the condition of the bills that the documents were to be delivered against payment. The Bank, however, was delivering the documents relating to the bills to Messrs. Mohd Ismail & Co., on their executing Trust Receipts in favour of the Bank.

Messrs. Mohd Ismail & Co. used to clear and store the goods in their own godowns. They had a very large business and enjoyed very good reputation in the market. The arrangement worked well for years till the firm got into financial difficulties when they pledged to the Northern Bank the goods they had received on Trust Receipts from the Southern Bank.

The Northern Bank was very careful and had kept effective control over the goods pledged to it. Its Godown Keeper always remained in charge of the godowns. When Messrs. Mohd Ismail & Co. failed, the Northern Bank placed on their godowns the bank's board; "Northern Bank Mortgagees in possession." The Southern Bank claimed possession of the goods by contending that the goods were obtained by Messrs. Mohd Ismail & Co., by fraud and that the Bank was entitled to the possession of

the goods held by the firm as trustees on its behalf. In the litigation that followed the following point were decided:—

(1) As the Southern Bank had never in the course of their long dealings, insisted on Messrs. Mohd Ismail & Co.'s carrying out the principal clauses in the Trust Receipts, the firm were entitled to treat these as ordinary documents confirming their liability to take up on due dates the bills documents attached to which had been delivered to them. Under the circumstances Messrs. Mohd Ismail & Co. could not be held guilty of fraud in respect of the goods obtained on Trust Receipts.

(2) As Trust Receipts appeared to have been got executed from the clients without any intention of insisting on the main conditions of the deeds being carried out, their validity was thought to be doubtful.

(3) The Northern Bank had received the goods from Messrs. Mohd Ismail & Co., without notice of the trust, bona fide and for valuable consideration. The pledge in its favour could not therefore be questioned.

Since then banks rarely deliver goods on Trust Receipts and if at all they give this facility they are careful to see that all the terms of the documents creating the trust are promptly and scrupulously carried out.

TAKING OVER ACCOUNTS FROM OTHER BANKS

"Seth Labh Chand Ji, you had promised to adjust your account last week and I wrote to the Main Office informing them accordingly. It is nearly a fortnight since then and you have not paid in anything. The Godown Inspector is at Sheikhpura. Most probably he will be here tomorrow. He will find out that the stocks in your godowns are not half of what they should be. Last time I had managed to make a few bags fall and block the door of the big godown which was almost empty. As he did not have time to wait till I could arrange to get the door broken open, he went away thinking that it was a genuine case of accident. This time that trick will not do and I cannot think of any other excuse to deceive him again. You must therefore adjust your account," entreated Mr. Khushal Chand, the godown keeper of the Paramount Bank.

Seth Labh Chand, the proprietor of Messrs. Ram Nath Dina Nath got very angry and replied: "Babu, you must be ashamed of yourself. It was you who showed me this way of taking advances from the bank. It was you who gave me more and more accommodation without proper security and suggested to me to buy larger stocks with these funds

in anticipation of a rise. You have been the cause of my ruin. Go away, I won't do anything."

Tara Chand, the godownkeeper of the Metropolitan Bank was not within hearing but could see that Seth Labh Chand, the Proprietor of Messrs. Ram Nath Dina Nath, was excitedly talking to Khushal Chand, the godownkeeper of the Paramount Bank. As a person on the look out for securing more business for his Bank, Tara Chand was interested in exploiting any differences that may arise between a customer and a representative of another bank. He therefore thought that it was a good opportunity for getting the business of Messrs. Ram Nath Dina Nath transferred to his own bank. As soon as he saw that Khushal Chand had left the shop of the firm, he approached the party and started criticising Khushal Chand and his bank for their unbusinesslike methods. Slowly he came to the point and wanted to ascertain what had upset the Seth when Khushal Chand had come to see him.

"Khushal Chand is a scoundrel and his Bank is a twopenny bank. They have no system of working. Yesterday, I had a customer and I wanted to take out samples. When I sent for him he was reported to have gone away with some marriage party. I am transferring my account to the First National. He was therefore apologising, but I cannot

depend upon him now. This is the second time he has let me down," was the calculated reply of the astute merchant.

Tara Chand knew that he must strike while the iron was hot. He started describing the facilities and the liberal treatment given by his Bank to the clients and tried to persuade the dealer to transfer the account to the Metropolitan instead of to the First National.

Seth Labh Chand was a shrewd man. He knew that on account of the competition amongst the banks he was in a position to dictate his own terms. He made Tara Chand believe that he had already promised the business to Sukha Nand of the First National. When Tara Chand besought him very much, Labh Chand told him that he could have the account provided he took it immediately and as it was, before Sukhanand had time to approach him.

Tara Chand lost no time in taking a letter from Seth Labh Chand addressed to the Paramount Bank requesting them to accept payment from the Metropolitan and to deliver the possession of the goods pledged with them. Tara Chand then ran to the Paramount Bank with the letter and paid them the amount. He was so elated with his success in securing the account of Ram Nath Dina Nath in competition with other banks, that he was anxious to

finish the taking over of the stocks as quickly as possible and to go and proclaim his triumph in the * Mandi.

As the Godownkeeper of the Paramount Bank went on removing his locks, Tara Chand went on putting the locks of his Bank. It did occur to him that he was acting against the instructions and against common prudence in blindly taking possession of the godowns. But then, he thought he could easily rely upon the stocks being in order, because he was taking over the security from another bank and not from the borrower.

The simpleton of a godownkeeper was soon to learn that he had been, by a clever deception, made the victim of a cruel fraud. The next day when he checked the godowns he had taken over from the Paramount Bank, he found that they did not contain even half of the stocks shown in the Delivery orders he had blindly signed at the time of obtaining possession of the godowns.

ADVANCES AGAINST DELIVERY ORDERS ISSUED BY THE CON- CERNS OF THE BORROWERS

"We quite realize that the banks cannot get on if they refuse to trust anybody. What we fail to comprehend is the tragic blind reliance they sometimes place on the words and the written statements of business men owning large concerns. Why can they not take courage in both hands and insist on satisfying themselves about the accuracy of periodical statements on which depends the safety of the large funds entrusted to the borrowers." (BURMA MAIL)

Ismailji Moloobhai, the proprietor of Messrs. Lakhoo Virji and Sons, owned a number of large rice mills all over Burma. He was supposed to be a very rich merchant and every bank was anxious to get a portion of his business.

To please them he gave to each of the big banks the business of one of his several mills. He took large advances against the security of stocks of paddy and rice lying in his mills. In Burma the delivery orders of most of the big rice mills circulate practically as negotiable instruments as many of the merchants like to pay the nominal godown charges of

the rice mills rather than take delivery of stocks and incur the expenses of removal. Supervision in such cases actually remains with the mills. As a rule, these delivery orders pass from hand to hand for a long time. It is only when the goods are sold to exporting firms that they take delivery of the goods from the mills for shipment.

In this practice Mr. Ismailji saw an opportunity of raising money on fictitious securities. He had seven rice mills at seven different places and the stocks in all the mills were pledged to seven different banks. For instance, the stocks in Akyab Mill were mortgaged with the Great Oriental Bank, while the stocks in the Bassein Mill were alienated to the First National. He issued bogus delivery orders from each one of the mills, made them appear to have passed through different hands and lodged them as security with the six banks which did not have the account of the mill that had issued the delivery orders. So great was his influence and so valuable his account to every individual bank that none dared annoy him by critically examining his books in order to check the quantity and quality of the stocks pledged to the bank and to ascertain and leave out of account, the stocks for which delivery orders had been issued to the public. He kept on shifting the bogus delivery orders from one bank to another

and thus managed to hoodwink the bankers into believing that there was a good turnover in his different accounts.

His business was very large; his mills were large concerns and there were huge stocks of paddy and rice in each of them. On account of the satisfactory dealings he had with all the banks, no bank's official carefully verified his stocks. In the daily statements that he issued to the banks, he used to show the stocks of paddy and rice much in excess of what they actually were. His getting such large amounts of money on fictitious stocks gave him a very commanding position in the market. This blinded the banks to his actual position and he got more and more facilities merely on the strength of his apparent financial standing and social status.

The ease with which he could raise lacs of rupees without any security made him overtrade recklessly. Sudden and precipitate fall in the price of rice ruined him and brought to light his real financial position which was one of utter insolvency.

The news of his failure came as a bolt from the blue to the unsuspecting bankers. They ran to the mills with the delivery orders only to find that these were never backed by real stocks and the names of the intermediate endorsers were fictitious.

Ismail could not bear the humiliating treatment accorded to him by the society and committed suicide in a fit of frenzy.

ADVANCES AGAINST GOODS RECEIVED ON CONSIGNMENT BASIS

"Ram Nath & Sons, piece-goods dealers, who have been running a Cash Credit account with us for the last two years on the security of piece-goods, closed their doors yesterday. It appears that they had recently suffered very heavy losses. At present they owe our bank Rs. 45,000/- in their Cash Credit account. But against this we hold first class British piece-goods worth about Rs. 70,000/-. The Bank's moneys are therefore absolutely safe."

Hardly had a month passed since the Manager of the Cawnpore Office of the Northern Bank had sent the above report to his Head Office advising the failure of Ram Nath & Sons, when the authorities were surprised to receive an intimation from the same officer saying that the goods pledged to the Bank by Ram Nath & Sons had all been received by the firm on consignment basis and the solicitors acting on behalf of the manufacturers were demanding the return of the goods as unpaid vendors.

Ram Nath, the proprietor of Messrs. Ram Nath & Sons, was a clever man with a sweet tongue. On account of his very courteous behaviour and ever-readiness to meet the customers' wishes and require-

ments, his business was daily increasing. The products of well-known foreign manufacturers, which were not available in the shops of the leading dealers, could be had in Ram Nath's shop in a variety of shades and patterns.

The manufacturers' representatives visiting India had seen his turnover and had agreed to send him goods on consignment basis.

The increasing sales led Ram Nath into ordering more and more goods and a time came when he was saddled with such heavy stocks that through sheer nervousness he reduced the prices to clear the old stocks. The effect was almost magical and the entire stocks were cleared within a week. Ram Nath was not slow to profit by this experience. He had now learnt that, if he could sell the goods a little cheaper than other dealers, he could have a much larger turnover in his business. Why should he not get more goods on consignment basis, sell them at cheaper rates and misappropriate the proceeds?

He ordered large quantities of goods and when he could not dispose them of as quickly as he had expected, he managed to pledge them with the Northern Bank. The Bank took from him the Bills of Lading, Invoices and other documents relating to the goods, and went on making advances till the balance in his Cash Credit account exceeded Rs. 45,000.

When Messrs. Ram Nath & Sons failed, the solicitors acting on behalf of the manufacturers, who had sent the goods on consignment basis to Messrs. Ram Nath & Sons, demanded possession of the goods as unpaid vendors. The Bank consulted their own lawyers who advised the Bank not to resist the claim of the manufacturers pointing out that the Bank having accepted from the borrowers the manufacturers' invoices which clearly indicated that the goods had been sent on consignment basis, was bound to ascertain that the goods had been paid for.

The Bank realised that its Cawnpore Office had been negligent and had made a mistake in making advances to Messrs. Ram Nath & Sons on the security of goods which they had received merely on consignment basis and to which they had no right to pledge.

STAMPS ON FOREIGN BILLS

Inspector :—" Wilson, I was just going through your book and found that you have debited your Profit and Loss with Rs. 50,000 on account of stamps affixed on Foreign Bills received from London and other branches during the last twelve months. This would mean that last year you received bills for £. 40,00,000 but the bills actually received by you during this period do not come to half that figure. How do you account for this ?"

The Great Oriental Bank had laid down perfect systems for all their departments. In the Foreign Bills Department all the foreign bill stamps purchased were debited to the 'Foreign Bill Stamps' account. Whenever any stamp was taken out for use, corresponding credit was given to the 'Foreign Bill Stamps' account. In case of foreign bills, against which the Bank had made advances, the amount of stamp duty was worked out on the Bill's schedule in ink, and the totals of all schedules were debited by one voucher to the Profit and Loss account, and

corresponding credit was given to the 'Foreign Bill Stamps' account. In case of foreign bills received for collection, the duty was worked out in a special column provided for the purpose in the 'Foreign Bills for Collection' register. The total of stamps required for stamping the bills for collection was debited to 'Charges on Foreign Bills' account and credited to 'Foreign Bill Stamps' account. The balance at the foot of the 'Foreign Bill Stamps' account therefore represented the value of foreign bill stamps on hand. This system provided a perfect check on the 'Foreign Bills Stamps' account. The officer in charge was personally responsible for seeing that the duty was properly worked out on the schedules and in the register, and stamps for proper amounts were actually affixed on each bill and cancelled in his presence, thus leaving no chance for anybody to understamp the bills.

Mr. Grey had been placed incharge of the Foreign Bills Department after a short training. He was therefore, inexperienced and was not in a position to appreciate why the Bank had laid down such a strict system of checks and balances and why they were insisting on the staff strictly abiding by it. He allowed certain laxity to develop in the checking of books. When the clerks pleaded for books to be released as soon as possible, he would hurriedly sign

and return them.

They had in the foreign bills department a clerk named Mani Bhai. It was his duty to work out the Indian stamp duty on foreign bills and to stamp the foreign bills with the necessary stamps. He soon discovered that the officer was not checking the books and vouchers carefully and would sign blindly anything that was placed before him. Mani Bhai thought of making money by taking advantage of the slackness on the part of the officer. He accomplished this by one of the following methods:

- (1). While striking the totals of the column meant for writing the amount of foreign bill stamps, he deliberately swelled the totals;

Or

- (2). While working out the stamp duty he would put against the respective bill a higher figure than the amount of stamps actually required for correctly stamping the bill.
- (3). In many cases he would actually stamp the bills with less stamps than what he had received for the particular bills.

Thus a large stock of unused stamps would accumulate in his hand. These would have been useless to him if he had not been able to convert them into cash. But he cleverly managed to per-

suade the jamadar to allow him to go to the Stamp Office frequently for purchasing the foreign bill stamps required for the Bank. He would hurriedly leave the office apparently for the Stamp Office but would actually go to his place, and would bring with him the foreign bill stamps accumulated by him.

He went on doing this with impunity for a pretty long time. The cost of stamps on Advance Bills was debited directly to profit & loss and there was no further check on the amount thus debited. The understamped bills also escaped notice because the drawees never cared to check whether the bills had been properly stamped so long as they were not required to pay more than the usual stamp duty.

The fraud came to light when an intelligent Inspector going through the profit & loss account compared the cost of foreign bills stamps debited to the Bank with the volume of foreign bills received and discovered a glaring discrepancy. He actually worked out again the stamp duty required to stamp all inward foreign bills during the last twelve months and found that Mani Bhai had defrauded the Bank to the extent of at least Rs. 20,000/- during the preceding twelve months alone.

Mani Bhai died soon after his release from the gaol. His children are still seen begging in the streets of Calcutta.

OPENING CURRENT ACCOUNTS

CHANDU LAL, the eldest son of Seth Jamna Das, a rich mill owner of Gujrat, was travelling in a second class compartment by the Kathiawar Express. At Surat a Parsee gentleman got into his compartment and introduced himself as Barrister Sodawaterwala.

The new entrant was an entertaining conversationalist and soon made friends with Chandu Lal and other persons travelling in that compartment. While the train was nearing Bombay he started describing to Chandu Lal how his father had left him large amounts in Shares and Government Securities and enquired whether he could introduce him to some good bank or a reliable firm of Stock and Share Brokers. He informed Chandu Lal that he wanted to sell some of the Government securities in order to invest the proceeds in other securities which would bring a better return. Chandu Lal offered to help him if he called at his father's office in the Fort at 11 O'clock the next morning.

In response to this appointment Mr. Sodawaterwala looked up Chandu Lal in his father's office the next day. Chandu Lal introduced him to the Manager of the New Town Bank where his father was much respected as a valued client. Sodawaterwala opened

an account with the Bank with Rs. 2000/- which he paid in cash.

Within the next few weeks Sodawaterwala sold through the Bank securities worth Rs. 47,000/- and cashed a number of cheques and dividend warrants payable to Hormusji Meherwanjee Sodawaterwala.

The new account which was so operative for the first two or three weeks suddenly became dormant in the fourth week and showed hardly any operation afterwards. The balance which used always to remain at a respectable figure went down to a thousand rupees and the Bank did not see Mr. Sodawaterwala for some time.

The next time he came to the Bank he was accompanied by a police officer, who informed the Bank that the real name of the cheat was Rustomji Pestonji Sodawaterwala and that he had stolen securities and cheques belonging to his distant relation, Hormusji Meherwanji Sodawaterwala who had died of heart failure a few weeks before while his wife and children were away with a tourist party in America.

The New Town Bank had to pay heavily for accepting the introduction from a rich and respectable but easily gullible person.

ADVANCES AGAINST PIECE-GOODS

WHEN Lancashire enjoyed a practical monopoly of supplying India's requirements of finer piece-goods, banks were liberally advancing against the imported British textiles; because the invoices clearly showed the quantity, quality and the real age of the goods. The goods having been standardised were readily saleable.

On account of their cheapness, the products of the Japanese and the Indian Cotton and Woollen mills supplanted the imports from Britain, but the marketing methods followed by their successors differed from those followed by the British manufacturers.

The Japanese Textile industry is greatly rationalized; certain mills specialise in turning out grey cloth; some devote themselves entirely to dyeing; while others concentrate on printing. The Jap sells for cash. The larger Indian importer has, therefore, to keep a representative in Japan to attend to his purchases at every stage in their manufacture and to secure a portion in the Quota of exports assigned to the country. The Japanese piece-goods imported by Indian merchants directly on their own account, enter India with invoices which are prepared by the importers' own representatives in Kobe. Whatever the advantages of such a system and whatever the neces

ity for its continuance, the banker, who is by nature cautious and conservative, if called upon to make advances against piece-goods, would prefer the security of the British product to its Japanese counterpart.

Many of the Indian mills are placing their products on the market through their own sole selling agents. Their products, therefore, come on the market not with the original manufacturers' invoices but with the invoices prepared by their sole selling agents. These invoices often do not give a satisfactory description of the goods. The bankers, therefore, feel chary in making advances against Indian cotton piece-goods.

In case of leading firms, with very good reputation, the bankers, however, have been accepting all kinds of goods whether these be British, Japanese or Indian and whether these be supported by manufacturers' invoices, borrowers' invoices, invoices of the sole selling agents of the mills, or of commission agents in larger towns.

The Western Bank had advanced three lacs of rupees to Messrs. Mathra Das Ram Nath, one of the biggest piece-goods dealers in Amritsar. A major portion of the goods held in this account was Japanese piece-goods supported by borrowers' own invoices. Next in importance was Indian cotton piecegoods.

bought not directly from the mills, but from the mills' sole selling agents, or from commission agents or brokers in the port towns, who had given their own invoices. The value of British piece-goods held in this account was hardly thirty thousand rupees.

One season Messrs. Mathra Das Ram Nath asked the Western Bank to make them advances against piece-goods purchased by them in Bombay, Calcutta and Karachi. They explained to the Bank that they had curtailed forward booking and were buying ready goods from the dealers just to meet the demands of the regular customers. On account of their long and satisfactory dealings, the Bank agreed to accommodate them against such goods.

In spite of the indulgence shown by the Bank, the turnover in their account remained quite unsatisfactory for about a year. Towards the end of this period, the proprietors were found rarely attending their shop and when the firm closed its doors, it was reported that all the partners had left Amritsar without informing anybody as to where they had gone. After observing due formalities of serving notice on the borrowers, the Bank, therefore, proceeded to sell off the goods.

In case of Japanese piece-goods supported by the borrowers' own invoices the value assigned to the goods was found to be much higher than the amount

actually realised. The Bank was expecting that at least in those goods which the borrowers had purchased ready from Bombay, Calcutta and Karachi, there would be no loss as the Bank had retired the bills covering those consignments only six months before and the Bank thought the goods could not have depreciated. As a matter of fact, the Bank found that this lot was the worst. The cases contained old cheap goods worth not even one-tenth of the prices assigned to the goods in the invoices. On enquiry it was found that the firms that appeared to have drawn the bills from Karachi, Calcutta and other places, were in fact assumed names under which the borrowers had arranged to rail the goods so as to make the Bank believe that these were fresh goods received from independent merchants in the Presidency towns.

Some of the woollen goods of the previous season, were found to have been damaged by moth and white ants on account of the defective packing.

The Bank had consequently to write off a large portion of the dues.

CREDITING AMOUNTS OF TELEGRAPHIC TRANSFERS

HARNAMDAS Mathradas were bankers and commission agents. They commanded plentiful resources and enjoyed good credit in the market. Harnamdas Mathradas used to invest their surplus funds in hundies. But occasionally, they used to get these hundies rediscounted at the Metropolitan Bank, Udhampur, with whom they maintained a current account.

On the 17th June, i. e., a few days before the firm failed, the Metropolitan Bank, Udhampur, received a telegram from their Nagpur Office instructing them to advise and pay Messrs. Harnamdas Mathra Das Rs. 15,000/-. The Bank waited for the payees to turn up to claim the amount. They did not. A hundi for Rs. 10,000/- which had been discounted to them matured for payment on the 18th but remained unpaid. On the 19th of June, the accountant of the Metropolitan Bank remembered that there was a telegram for Rs. 15,000/- from Nagpur in their favour, and presuming that this was meant to cover the debit on account of the hundi which was not yet paid, credited the amount of the telegraphic remittance to the account of the firm. Against this credit he discharged the hundi for Rs. 10,000/-.

The firm closed its doors on the 20th June.

Hardly had a few days passed when the Bank received a notice from a pleader in Nagpur intimating to the Bank that his clients Hemraj Dinanath had remitted Rs. 15,000/- through the Metropolitan Bank on the 16th June in connection with certain orders they had placed with Harnamdas Mathradas. As the firm had failed and had not fulfilled their part of the contract, they were not entitled to the amount remitted by his clients. The pleader further added that he held a letter from Harnamdas Mathradas saying that they had not received the payment of the telegraphic transfer nor had any intention of receiving it.

The Bank in the first place pleaded that as the party had become insolvent the money was vested in the Official Assignee. When the pleader addressed the Official Assignee, he intimated to the pleader that as the insolvents had not received the amount which was remitted to them subject to the fulfilment of certain conditions, he had no objection to the Bank refunding the amount to the remitter.

After this the authorities of the Bank found themselves in a very awkward position. Not only that they had to refund this amount of Rs. 15,000/-, which would not have made their position worse, but that they had lost their recourse to the previous

endorsers due to their having failed to take the requisite proceedings on the dishonour of the hundi. The drawers of the bill were traced but were found to be men without means. In fact it was discovered that the particular hundi was being renewed for the last four years.

Had the Bank only insisted on the party's signing a receipt before crediting the amount to their account or had they taken standing instructions from the party to credit such remittances to their account as and when received, they would have saved themselves from this loss.

ADVANCES AGAINST DELIVERY ORDERS

KULDIP Patel was a clerk in a big European mercantile firm. He was a smart man with winning manners and a charming personality. All the officers liked him and recognized him as a capable salesman who could easily push up the sale of any decent product. They were very sorry to hear of Kuldip's plans to leave their service and to start a business of his own. The chief sent for him and while speaking encouragingly of his capabilities, impressed upon him the difficulties that would come in his way if he started business without gathering sufficient capital to meet the sudden adverses, so common in business. In his youthful enthusiasm Kuldip could not however weigh properly the seriousness of his step, and the sincerity of the advice; he rushed into opening his own business.

As is usual with newly started business, Kuldip & Co. went on booking orders for any merchant who cared to give them business. Most of the buyers were not able to take deliveries and it was with great difficulty that Kuldip could persuade one or two Bank managers to accommodate him against the goods he had imported. The manufacturers had sent all the goods under one bill of lading to

Messrs. Thomson & Johnson, a big firm of Clearing Agents who happened to have their offices in London and in Bombay. Kuldip somehow managed to induce Mr. Ghelabhai, the Manager of the Northern Bank to give him advances against the goods lying with the Clearing Agents. The Manager was prepared to accept letters from the Clearing Agents stating that they held the goods on his account, and would deliver the same on his returning their letters duly discharged by the Bank. This arrangement helped Kuldip to sell the first lot at a profit. When the second lot arrived it was a larger one. After the sale of the first lot the bigger companies had come to know of the arrival in the market, of the products introduced by Kuldip & Co., to compete with the articles which they had been importing so long. They therefore announced reductions in the prices of their products which were well-known in the market. Kuldip's dealers got frightened and started repudiating their contracts. As the amounts involved in most of the cases were not very large and most of the dealers had found out some excuse or the other for backing out of the contracts---most of them were trying to find fault with the quality of the goods---Kuldip was in an awkward position. He could find no way out of the crisis which overtook him so soon and so suddenly in his career. The

Bank demanded further margin either in cash or in goods.

Kuldip was too proud to acknowledge defeat without a fight. He argued to himself that if he did not rob anybody but resorted to some trick to tide over his temporary difficulties till he had disposed of the goods, the end would justify the means. The easiest solution of the difficulty he could think of was to get hold of some letter-heads from the office of Messrs. Thomson & Johnson and to make out bogus delivery orders to be lodged with the Bank as further security. With this he persuaded the Bank to give him further time to dispose of the goods now lying on his hands.

The Bank had verified the delivery orders for the first lot. Later, they omitted to observe the formality. This slackness on the part of the Bank officials suggested to him to manufacture more spurious delivery orders. These delivery orders he went on lodging with the Bank and got in exchange delivery of goods represented by genuine delivery orders. As soon as he got the goods, he disposed of the same and utilised the proceeds in increasing the show that he was keeping up and secured on credit large amounts from the bazar. With the moneys so obtained he withdrew from the Bank certain false delivery orders he had handed over to them. As the turnover

in his account increased the Bank's confidence in him, they went on accepting more and more of his faked delivery orders.

Sooner or later the truth will out. It may be delayed for some time but it cannot be suppressed for ever. Unfortunately for Kuldip, Mr. Satyadev, the senior Securities' Clerk who was ailing and was on leave for the last six months returned to duty and one of the first thing he did was to take the delivery orders to the office of the Clearing Agents for verification. Mr. Satyadev could not believe the officer of the Clearing Agents' firm telling him that the delivery orders were forgeries and were made out on letter-heads stolen from their office.

Kuldip Patel admitted in the Presidency Magistrate's court that he had prepared bogus delivery orders on the firm's letter-heads which he had secured through a peon in the employ of Messrs. Thomson and Johnson.

ADVANCES AGAINST SHARES

IN this account of Ram Lal Tilani, you are holding a number of shares. Have you notified the companies about our lien on these shares? Why has not the dividend on these shares been received for credit of this account?"

When the Inspector asked these questions about the account, the Manager explained to him that the borrower was a very rich man and would feel offended if the Bank gave notices of its lien on the shares to the respective companies. The Inspector was satisfied for the time being.

Next day, however, while actually checking the securities he came across scrips for shares in certain Jute companies where the number of shares represented by each scrip was unusually large. For instance, there were three certificates each covering 50 shares in the Bengal Jute Co. The maximum number of shares which the Inspector had ever seen represented by one scrip in the biggest accounts in Calcutta, was 25. This fact coupled with the irregularities noticed by him the previous day made the Inspector suspect that there was something wrong with the advance. He wanted to have a look at the report on the financial standing of the party but to his surprise he found that the branch had not

cared to obtain any information about the credit or worthiness of the borrower even when he was granted such a big accommodation.

When the Inspector found that the more he looked into the account the more irregularities he noticed, he set himself to find out the real position of the account. He started with issuing notices to the companies of the lien created in favour of the Bank.

Unfortunately his worst fears were very soon confirmed by the replies received from the companies whose shares were pledged with the Bank; the Bengal Jute intimated that Ram Lal Tilani held only three shares in their Company and not 150 as mentioned in the letter addressed to them by the Bank, the information received from the National Iron Company disclosed that the borrower held only 25 shares in the company and not 1500.

The Inspector scrutinized the share certificates again but there was absolutely nothing to show that the figures had been altered. When he returned to Calcutta he took the share scrips with him, and actually presented them at the offices of the companies concerned. He was surprised to be informed that the numbers on the share scrips had really been changed with the aid of chemicals and that the certificates had been made to appear as representing a

much larger number of shares than these originally stood for. When, at the suggestion of one of the Companies, the writings were subjected to examination under *ultra-violet* rays, the obliterated figures became visible again.

In the subsequent legal proceedings against Ram Lal Tilani it transpired that he was a hardened criminal and had been to jail a number of times before.

ADVANCES AGAINST GOVERN- MENT PAPERS

WHEN the Delhi Express steamed into Bombay Central, Mr. Hormusji, an old Parsi gentleman, was seen anxiously looking out of a second class compartment. He was surprised to find that his brother-in-law, Bomanji was not on the platform to receive him. He had written to Bomanji intimating him of the day on which he was coming, definitely mentioning the train by which he was travelling.

Mr. Hormusji decided to go to the residence of his brother-in-law. Reaching there he was astonished to see that the room was locked. The old man had, therefore, no other alternative but to drive to a hotel. As soon as he got over the strain of the travel, he proceeded to the Metropolitan Bank where Bomanji was employed. At the Bank he learnt that Bomanji was absent for the last two days and had not even sent a leave application.

He was wondering what could have made Bomanji go out of Bombay without leaving any trace, when Hormusji recollected that he had handed to his brother-in-law last week, Government securities worth Rs. 18000/- for lodging these with the Public Debt Office for collection of interest. "Could this have anything to do with his disappearance!"—a

thought flashed across his mind.

Hormusji was almost stunned by this unpleasant idea. But until he was sure that his brother-in-law had really cheated him, he could not take any step lest some hasty action on his part, should ruin the young man for life.

He called at the Public Debt Office, gave them the particulars of his securities and asked them whether the interest warrants were ready, but learnt that the interest had already been paid.

Mr. Hormusji while on his way to the Bank thought it better to call on his solicitor friend Manilal Mehta to ask him to accompany him to the Bank.

Hormusji saw the Manager of the Premier Bank and explained the purpose of his visit. "I am sorry I cannot give you any information about the account of a customer of our Bank," replied the Manager. "Mr. Hormusji is anxious to settle the matter amicably, if it can be easily done. He has not endorsed the Government Papers and the Bank cannot retain them," intervened the Solicitor.

This brought home to the Manager the seriousness of the issues involved. He asked Hormusji to sign his name on a slip of paper and sent for the government papers to find out whether the signatures on the securities had really been forged. He asked

for the details of the account and for whatsoever information the office possessed about the means and standing of Bomanji Golyala, who appeared to have taken an advance from the Bank against the securities. The Manager noticed that the signatures of Hormusji and those of Bomanji appearing on the government promissory notes were practically in the same handwriting, and that the signature of Mr. Hormusji on the government papers completely differed from the style of his signature just then taken on the slip of paper. He realized rather too late that had the government papers been renewed in favour of the Bank, he could have successfully resisted any attempt of Hormusji to claim back the promissory notes. Knowing the weakness of his position he thought it better to come to a compromise.

Profiting by this experience the Bank has, since that day, stopped making advances against government papers until these are renewed in the Bank's name.

SUBSTITUTION OF STOCKS

THE continued fall in the price of sugar every succeeding season, had no doubt affected the financial position of most of the sugar mills but R. B. Sham Lal felt the blow more severely than most of the other mill owners. When the sugar industry was granted protection, he mobilized all his resources and with the help of his relations started a proprietary mill on the bank of the Ganges, twenty miles south-east of Cawnpore. As the site he had secured for the mill was in a very suitable locality, many of his friends offered to become share-holders if he converted his concern into a joint stock company. As however, he expected that his profits would be very large he politely but firmly declined all such requests.

The imposition of excise Duty, the cut-throat competition of the mills and the repudiation of contracts by his dealers made it difficult for him to carry on the work of the mill without further accession of working capital. The stocks in the godowns pledged to the Bank were accumulating and the Bank was asking for more and more margin, as the market kept on declining. He, however, managed to pass through the first adverse season without much trouble.

He believed that the trials through which he had passed in the last season were only temporary and, even should the depression be intensified for the time being, the mills would combine and find out some solution to get out of the embarrassing situation. But he recognized that he could not be very optimistic. Shrewd as he was, he realized that he must be prepared to encounter similar difficulties should they repeat. He, therefore, had his plans laid out in advance.

"Rai Sahib, your Guest House has not yet been completed," remarked the Bank Manager as he stepped out of his car on his reaching the mill premises. "My godown-keeper wrote to me some time back that your building materials are lying in one of the biggest godowns and your bags of cement are getting mixed up with the sugar bags," continued he.

"We ourselves were anxious that this work should be finished before sugar stocks started accumulating in the season, but the expert whom we had secured for the reinforced concrete work fell ill and went back just when the concrete section of the work was taken in hand. We have last week secured the services of another man and we are now working day and night to have it finished as early as possible," replied R. B. Sham Lal.

Though the Cash Credit account of the Mill

against stocks of sugar was running in order at the Bank from the beginning of the season, the clearance of stocks was unsatisfactory. On account of overflowing stocks the godowns were being stacked in uncountable manner.

The Mill suddenly stopped manufacturing sugar, weeks before the end of the season. The Bank then pressed R. B. Sham Lal to sell at least a portion of the stocks and reduce his indebtedness to the Bank, and although he kept on promising he did not do anything. After waiting for about four months the Bank made ready to dispose of the stocks.

The Manager went to the Mill with two influential brokers to show them the samples and obtain offers from them. When actually taking out the samples one of the brokers was astonished to find that some of the bags contained river-side sand instead of sugar. He brought this to the notice of the Manager who fearing serious developments, decided to stay at the Mill until all the bags had been examined and their contents verified. The Rai Bahadur was immediately sent for.

Sham Lal: "Manager Sahib, I got your telegram.

Is it not surprising that four months after the Mill was closed, you should discover that there are bags containing sand instead of sugar. Had the sand

bags been there when we were all here in the season, would not your Inspectors have discovered it? Don't you think this is the work of your godown keepers."

Manager: "We shall leave it for the Police to settle, but I now understand why the work on the Guest House was prolonged late into the season."

ADVANCES TO AGRICULTURISTS

MADHAVRAO Gobindrao, sometimes a well-to-do gentleman, had been keeping a good current account with the Prosperity Bank, Poona, for several years. The Bank knew him to be a rich man holding large agricultural property. Bad company, however, had led to his dissipating all his wealth. He managed to dispose of his assets so quickly and so secretly that not even his closest friends could know that he had very little left which he could call his own.

On account of his long and satisfactory dealings with the Bank, the Manager used to respect the old man. When therefore Madhavrao asked for a temporary overdraft of Rs. 3,000/- the Manager could not refuse him. Months passed and in spite of repeated reminders, Madhavrao would not repay the advance. The authorities of the Bank instructed the Branch Manager to file a suit for the recovery of the dues.

In the court the borrower submitted that he was an agriculturist and successfully claimed the protection of the Deccan Agriculturists Relief Act.

The Bank wrote off the amount as bad debt and instructed its branches in other provinces to study similar enactments governing financial transactions with agriculturists.

SELLING OF SECURITIES

BANKS make advance against shares and Government securities on the understanding that the borrowers will maintain the stipulated percentage of margin on the market value of the securities.

When the market goes down the margin is reduced. If the fall is very precipitate, the margin may actually vanish and the Bank's advance may even exceed the value of the securities held by the Bank. Banks, therefore, threaten to sell off the securities if the borrower does not take immediate steps to make up the deficit. Very often these threats are given only with a view to frighten the borrower and make him seriously try to send the required remittance to the Bank. If the borrower is really making attempts to pay up the deficit the bank does not generally start selling the securities.

Cases are known where some of the banks threatened to dispose of the securities but did not actually sell within a reasonable time after the date of the notice, had to pay very heavy penalties for not carrying out their threats.

The Premier Bank had advanced Rs. 30,000 to Ramchandra Manohar against Hindustan Iron and Steel shares when these were quoted at a very high premium. After a few months of their making

advance, the price of the shares began to fall and the Bank sent a registered notice to the borrower on the 10th April, intimating him that if he did not pay Rs. 20,000/- by the first of May, and thus brought the margin in his account to the stipulated level, they would sell his securities.

Somehow, the Bank did not sell the securities until after August, when the price of the securities had dropped considerably below the level ruling in May. Had the Bank sold the securities in May at the price then current, there would have been a surplus of Rs. 10,000 in the borrower's favour. As a result of their selling the securities in August, there was a shortfall of Rs. 10,000 in the account.

In the ordinary course, the Bank demanded Rs. 10,000 from Ramchandra Manohar and on his refusing to pay, filed a suit against him. He, however, contended that he was all along under the impression that the Bank had sold his securities in May and was expecting that he would have a credit balance of Rs. 10,000/- in his account.

The Bank lost the case. Ramchandra Manohar filed a counter claim against the Bank for recovery of Rs. 10,000. He was granted a decree against the Bank for Rs. 10,000, being the surplus which the borrower would have had in his favour if the Bank had carried out the threat within a reasonable time.

PASSING CHEQUES

A clumsy forgery by a rank outsider is now rare. The crook has carried his art almost to perfection. He generally selects his accomplice from people who possess personality and charm of manners and are capable of wielding a sort of influence over banks' officers and the staff. The start is usually made by small forgeries.

"Here, Sir, is a bearer cheque for Rs. 100/- drawn by such an important client of your Bank and the ledger keeper wants to return it saying that the signature differs from the specimen on record. I am prepared to admit that there might be a slight difference somewhere for I know that the man is ill and cannot sign properly. After all, the cheque is for a trifling amount and nobody would like to be behind the bars for such a small amount", urged a respectable looking smart young man who had been frequently seen in the Western Bank.

The officer sent for the specimen signature card, compared the signature on the cheque and noticed the difference but taking into consideration the amount of the cheque and the explanation of the person presenting the cheque he felt that the Bank would run little risk in passing the cheque and instructed the ledger keeper to pay it.

Exactly a week later, the same man presented another bearer cheque for Rs. 500/- drawn on the same account. The ledger keeper raised the same objection, but the man referring to the signature on the previous cheque, gave the same explanation about the ill health of the drawer and got this cheque passed also. A few days later the same person whom we shall now call Ramnik Lal, presented a cheque for Rs. 3,000/- on the same account. The ledger keeper again maintained that the signature was not all right. Ramnik Lal made a grievance of the ledger keeper's treatment, accused him of being obstinate, explained that he was taking in cash only Rs. 1,400/- out of Rs. 3000/- and was redepositing Rs. 1600/-, which amount was payable by him to the depositor. He got this cheque passed also.

To avoid vexation and delay every time he presented a cheque, Ramnik Lal proposed that the Bank should get a fresh specimen of signature of the bed-ridden depositor and should keep it on record.

Unfortunately, the Officer succumbed to the logic of the smart fellow's arguments and gave him a blank specimen signature card to be signed by the depositor who was reported to be ill. Ramnik Lal returned the card with the signature which tallied with the signature appearing on the recent with-

drawals. The Officer authenticated the same, took out the old card and placed the new one in its place.

He unfortunately overlooked the fact that the signature had not been placed on the new card in the presence of a Bank official. He should not have accepted the card without at least carefully comparing the signature with the original on record. He should have thoroughly scrutinized the style, and the characteristic strokes before authenticating the new card.

Ramnik Lal cashed some more cheques aggregating to about Rs. 10,000/-, on the strength of the forged specimen signature that he had supplied to the Bank on the new card. He would have gradually drawn the entire balance of Rs. 60,000/- lying in this account, had not the depositor returned from his native place much earlier than the cheat had expected.

Ramnik Lal absconded. The Bank had to make good the amount withdrawn by Ramnik Lal by forged cheques.

**OMISSION TO PERFORATE
DRAFTS, ETC.**

"YOUR LETTER STATING DRAFT DATED
FOURTEENTH ELEVEN THOUSAND
FAVOURING GANESH SAHAI PAID
WITHOUT ADVICE UN-INTELLIGI-
BLE WIRE PARTICULARS STOP NO
SUCH DRAFT ISSUED STOP ONLY
THREE DRAFTS ISSUED GANESH
SAHAI THAT DAY FOR HUNDRED
EACH DRAWN ON AMBALA LUDHIANA
FEROZEPUR."

When the Accountant of the Rawalpindi office of the Western Bank received the above noted telegram, his first thought was that some advice had gone to a wrong branch and therefore he had received the telegram. But then he remembered that a draft for the like amount with certain irregularities was paid to a man, belonging to another province, who was identified by Lala Mangamal, Proprietor of R. B. Changa Mal Mangamal. He took out the draft to make sure whether it was really drawn by Cawnpore Office who had sent the telegram. The draft was there with all the particulars as stated in the advice sent to Cawnpore Office. "What could be the matter! Why

should they have sent this telegram then!" he wondered.

He had paid the draft without referring to the Manager because the payee had furnished identification by the proprietor of one of the leading firms. He sent for Lala Mangamal and enquired whether Ganesh Sahai who cashed the draft for Rs. 11,000/-, was still with him.

"Nahin sahib, ham kya janen abhi woh kahan hai. Das sal key pahale woh hamarey pass German firm ki taraf say ata raha hai. Os ke bad to usi din aya tha." ("No sir, what do I know where he is now. Ten years ago he used to come to me as a representative of a German firm. That was the only day he came after so long.")

It was now becoming evident that the rogue had cheated the Bank.

The Accountant had paid the draft in the absence of the advice without referring it to the Manager. He was therefore afraid of placing the telegram before the Manager. He hesitated for a time, but then realised that as the Manager was a really an intelligent and influential gentleman, he had better acquaint him as soon as possible, with all that had happened. He expected that the Manager may still be able to recover the money without the matter coming to the notice of the Head Office. When the Manager heard

what the Accountant had to say, he at once concluded that it was the work of some clever crook who had altered the amount and the name of the branch on which it was drawn, possibly with the help of chemicals.

As the telegram mentioned two more drafts, he feared that the swindler might have dealt with the other two drafts in a similar manner and thought it worthwhile to warn the other important branches excepting the three mentioned in the telegram asking them to pay all drafts issued by Cawnpore Office after referring to advices issued by that office and to inform the police if they came across a draft from Cawnpore for which they had not received any advice.

The swindler had expected that the fraud would not be discovered for a number of days. He presented the next draft at Karachi through Messrs. Lekhchand Tekchand, one of the well-known firms. They presented it in the Clearing. He had calculated that he will not have the least difficulty in getting the draft encashed if he handed it to a big firm and got it presented through the Clearing. The Bank will then have much less time to think over the matter. He thought he could also count upon the draft presented by a known firm being paid without much hesitation. The cheat had read the psychology

of the Bank management all right, but unfortunately for him, the Karachi branch received the telegram from Rawalpindi just when the draft was being passed for payment.

The Manager of the Western Bank at Karachi was also a very capable man. He did not disclose the contents of the telegram even to the office but simply instructed them to return the draft with the memo, "Advice not received." He at once got in touch with the police, explained to them the case and asked them to watch the office of Messrs. Lekhchand Tekchand lest the cheat should run away as soon as he came to know that the draft was not being paid. When the police reached the office of Lekhchand Tekchand, Ganesh Sahai was there eagerly awaiting the intimation of the draft having been paid. When he was arrested the police found the third draft in his possession. Here also the amount was treated with chemicals and raised to Rs. 3,000/- and the name of the drawee branch was altered to Hyderabad (Sind).

The police officers criticised the Bank for not perforating the drafts issued by them.

TRANSFERRING AMOUNTS BY LETTERS SIGNED BY ONE OFFICER

Mr. Ferguson :—"As regards the passing of the cheque for Rs. 70,000/-, Sir, you had the credit advice in your hand when you instructed me to pass the cheque against the credit *without the least delay*. I never thought that there could be anything wrong with the advice."

Manager :—"Oh! I said 'as expeditiously as possible.' That did not mean that you were to waive all the formalities and omit scrutinizing the signatures of the officer signing the letter."

Formerly, banks used to transfer large amounts from a customer's account at one branch to his account at another branch merely by letters signed by *one* of the officers. They now effect such transfers by proforma drafts on regular printed forms signed by *two* duly authorised officers. Experience has taught them that it is more difficult for the cheat to forge two signatures. The two-signature procedure was introduced after one of the big banks had been defrauded of quite a large sum of money.

Banks choose their officers from men of integrity

and character, but financial embarrassments, believed at the time to be of temporary nature, may sometimes tempt some of them to seek relief by fraudulent manipulation of entries in books of accounts. It is not easy to pass false entries if the officer is to get another officer to join with him in signing. Hence greater safety in two signature procedure.

A well-dressed Marwari called at the Bombay Office of the Metropolitan Bank, introduced himself as Mr. Poonam Chand, a partner in the firm of Messrs. Sitaram Poonamchand and opened an account in the name of the firm with Rs. 10,000/-. He gave the officer to understand that the firm had its Head Office at Calcutta and there also they were banking with the Metropolitan. He further informed the Manager that it was likely that large amounts may be transferred from their account at Calcutta to their account at Bombay and *vice versa*.

Mr. Poonam Chand operated upon the account for a week. After that he called at the Bank one morning just when it had opened for business and inquired if the Bank had received a remittance of Rs. 80,000/- from their Calcutta Office. When informed they hadn't, he requested the Manager to intimate him as soon as the amount was received.

The Calcutta mail was just being opened when Poonam Chand again called at the Bank at 11 O' clock.

According to his plans this mail brought the advice to credit the firm's account with Rs. 80,000/-. He requested the Manager to instruct the office to pass his cheque for Rs. 70,000/- against this credit without *delay*. The Manager sent for Mr. Ferguson, the officer in charge of the Current Accounts Department, showed him the letter and asked him to see that the cheque for Rs. 70,000/- was passed as expeditiously as possible.

A few days later, the Bombay Branch received a telegram from their Calcutta Office questioning the debit of Rs. 80,000/-. On careful scrutiny, the letter which purported to have come from their Calcutta Office, was found to be a forgery.

The search for the cheat proved unavailing.

CANCELLATION AND CUSTODY OF PAID CHEQUES

"MR. Chopra, you are a very careless man. Yesterday you passed a cheque for Rs. 80,000/- without making an entry in the ledger, and that too, when the account was not in sufficient funds to meet that cheque," was the severe reproach of the ledger checker.

"Please let me have a look at the cheque," said the ledger keeper. "No, I did not see this cheque yesterday," he added emphatically, after glancing over the cheque.

"Here is your signature and the Accountant has duly passed the cheque," retorted the ledger checker.

A few minutes later, both of them were seen entering the Manager's room with nervous forebodings.

Investigation revealed that this was not a matter of simple mistake or misposting but a deliberate and now a successful attempt at swindle. It was found that the cheque was a genuine document and the signatures put on it by the ledger keeper and the passing officer were also not forgeries.

What had happened was this. The cheque had been presented ten months ago and was paid in cash to the bearer thereof. Somehow, at the time of

payment, the cashier forgot to put the stamp "PAID" on the cheque. This omission on the part of the cashier suggested to someone the possibility of presenting the cheque over again to the cashier. The culprit accomplished this by changing the date on the cheque from 20-1-1931 to 20-11-1931.

In most of the well-organized banks the system is to enter in the 'Token Book,' all cheques passed for payment. If the volume of business is very large the smaller cheques may not be entered in the book but bigger cheques are invariably entered and are not paid unless these come through the officer in-charge of the Current Account Department, duly entered in a Token Book.

The Token Book shows the drawer's name, the amount of the cheque and the Token number. The cashier on receiving the cheque from the passing officer, compares the details before acknowledging receipt of the cheque by putting his initials against the item in the Token Book.

It appears that at the Southern Bank where the above fraud took place, this system did not exist. This facilitated the task of the cheat who had decided to re-present the cheque for Rs. 80,000/-.

He gave a cheque for Rs. 25/-, got a 'token' and with the help of the peon, wrote the number of this token on the stolen cheque and destroyed the

cheque for Rs. 25/-. As the cheque for Rs. 80,000/- had already been signed by the passing officer, the peon gave it straight to the Cash Department and the cheat had no difficulty in getting cash for it.

The omission on the part of the Cashier in marking the cheque "PAID" would not have led to so serious consequences had the branch got a system of securely packing and carefully keeping under lock and key, all the old vouchers.

REFUNDING AMOUNTS OF DRAFTS REPORTED LOST

JUST before the Christmas holidays Mr. Vaman Gajanan purchased from the Bombay Branch of the Modern Bank a draft for Rs. 500/- on their Poona Branch favouring Messrs. Kikabhoy Mahomedbhoy. Early in the New Year, he called at the Bank, represented that the draft had been lost and requested the Bank to refund him the amount of the draft. As usual, the Bank offered him a duplicate of the draft, but the applicant declined to take the duplicate saying: "The bank was closed for Christmas holidays. The despatch of the goods urgently required, was being delayed. I had to arrange through a friend in Poona to pay Rs. 500/- to Messrs. Kikabhoy Mahomedbhoy in cash. It is not necessary now to send the draft to them. I would not take the risk."

His explanation appeared quite satisfactory and the Bank did not insist on his getting a letter from Messrs. Kikabhoy Mahomedbhoy. The amount of the draft was therefore refunded to Mr. Vaman Gajanan in cash without his producing the consent of the payee.

Three months later, the draft for Rs. 500/- which was reported to have been lost, was presented by the Official Assignee for payment at the Poona Branch

of the Modern Bank. The Bank returned the draft with the remarks: "Draft reported lost. Cancelled."

The Official Assignee, however, insisted on receiving payment of the negotiable instrument as it formed part of the assets of the insolvent firm, Messrs. Kikabhoy Mahomedbhoy. He maintained that if the Bank refunded the amount of the draft to any body without consulting the payee they did so at their own risk.

The Official Assignee further stressed that the Modern Bank could not escape their liability on the draft as the drawers of the Bill of Exchange. The Modern Bank had, therefore, to pay the amount of the draft over again to the Official Assignee.

It was later discovered that Vaman Gajanan, who was a man of very small means, belonged to a village in a native State in Central India. He had recently started business with a meagre capital and after suffering losses in his initial transactions, had absconded. The Bank did not think it worthwhile to waste more good money after bad.

COLLECTING CHEQUES FOR CUSTOMERS

MAGANLAL Desai had a current account with the City Bank. He used to move about in clean khaddar clothes and had created an impression at the City Bank that he was a well-to-do businessman handling all sorts of general business.

Once he brought for the credit of his account a cheque for Rs. 3000/- drawn by Mohd Ismail in favour of the Development Trust. The cheque purported to have been endorsed in blank by a superintendent on behalf of the Development Trust. The clearing clerk marked the cheque "Endorsement confirmed" and sent it along with other cheques to the Accountant for signing the certificate. The Accountant, however, refused to give the certificate because the Trust rarely endorsed away such cheques. He gave the clearing clerk definite instructions to refuse to collect the cheque.

The clearing clerk somehow did not understand the instructions clearly and did not know what reason he could give for returning the cheque. He expected that if the cheque were presented with incomplete certificate, the Model Bank on which it was drawn, would refuse to pay the same and would naturally return it with an objection memo. He

could then return the cheque in the usual way to the customer with the memo from the Bank on which it was drawn.

Unfortunately, the cheque was paid by the drawee Bank and Maganlal Desai drew out the amount of the cheque, and almost his entire balance, the next day. No body remembered anything about the cheque.

Mohd Ismail had issued the cheque in favour of the Development Trust on account of the quarterly rent he had to pay to the Trust. As the Trust had not received the amount of the cheque they served him with a notice drawing his attention to the fact that his rent remained unpaid. Mohd Ismail made enquiries from his Bank and learnt that the cheque in question was presented for payment by the City Bank a few weeks earlier and was paid through the Clearing.

Mohd Ismail paid the amount to the Development Trust and in their right as true owners of the cheque claimed the amount from the City Bank charging them with 'conversion' or in the alternate for money had and received. The City Bank sought protection of section 131 of the Negotiable Instruments Act and proved in the court that some of the responsible officers of the Development Trust used to endorse away in favour of their contractors, the pay-orders received from Banks in payment of interest on

deposits lodged with the Banks by the contractors in the name of the Trust, and denied liability for wrongful conversion.

The Court in the judgment decided that the practice could not override the statute which had expressly laid down that the Trust must lodge all such cheques for credit of their account with the Bank. The judge held that though he appreciated that the Bank had collected a crossed cheque in good faith and for a customer, he could not absolve the Bank from the liability for being negligent in collecting the cheque under *unusual* circumstances without making enquiry why a cheque drawn in favour of a public body was being paid in for credit of a private account.

Banker's responsibility for collecting cheques for his customers is really serious. He has to scrutinize very carefully all cheques received for collection. If there is the slightest circumstance which is likely to arouse suspicion he will be liable for the consequences that may arise by his collecting such defective cheques for his customer, without making proper enquires.

Maganlal could not be traced. The City Bank had, therefore, to bear the loss.

CARELESSNESS IN CHECKING BOOKS

"JATIN Babu," said the Manager, "you seem to have accepted an introduction from a member of the staff for opening this account in the name of Messrs. Patel & Co. This is against Head Office instructions."

On the Officer's explaining that Kali Charan Nag, the ledgerkeeper, who had introduced the account was an old employee of the Bank, the Manager condoned the irregularity, but warned the Officer to watch the operations in the account carefully.

The Officer, when he came back from the Manager's room, called Kali Charan Nag and told him how the Manager had objected to his taking the introduction from a member of the staff. "If you don't want the account, Sir, I shall ask the proprietor to transfer it to some other Bank," put in the ledgerkeeper, seemingly unconcerned. In course of time, the circumstances under which the account was opened were forgotten.

A few months after the account was opened, the operations in the account increased and cheques for larger and larger amounts came to be paid to the debit of Messrs. Patel & Co.'s account. Mr. Chuni Lal Patel, the proprietor of the firm used to call at

the Western Bank personally to get the passing of the cheques expedited. In fact he had created such a favourable impression on the Office that the supervisor would practically run to the ledger, hurriedly look at the balance and would pass the cheque for payment.

When Mr. Hoodiwala, a senior Inspector of the Western Bank noticed very close friendship existing between the ledgerkeeper and Mr. Chunilal Patel, he at once suspected that there must be something sinister about the relations between the two individuals. He was therefore anxious to satisfy himself that the ledgerkeeper was not passing unauthorised withdrawals from the account. When the Inspector looked into the account, the first thing that struck him was the comparative paucity of credits in the account. Large cheques were being paid to the debit of the account, but the withdrawals instead of exhausting the balance standing at the credit of the account, always appeared to leave in the balance column, sufficient balance to cover the next withdrawal.

He had guessed correctly and discovered that Messrs. Patel & Co., were really being allowed unauthorised withdrawals which had by then run into a lac of rupees. The Inspector set himself to investigate into the fraud and found that:

1. The branch had without permission from

their Head Office, discontinued the system of *summation balancing* about a year ago.

2. The ledgerkeeper was adding a digit to the previous day's closing balance after the checking was over but before posting the next cheque. The checking officer was simply deducting the amount of the cheque from the previous balance when initialling the balance. Even this practice would not have availed Kali Charan Nag much, had he not secured the help of other ledgerkeepers and had the officers been more careful in checking the books.

3. To further facilitate unauthorised withdrawals and to conceal the manipulations he was making to cover the fraud, Kali Charan Nag had arranged with a number of other ledgerkeepers that they should not ink out the balances taken out by them every fortnight.

4. The officers used to check the items jotted down by the ledgerkeepers and used to leave the balance books without totalling and without writing balances of individual ledgers in ink.

5. Kali Charan used to ink the balances and while doing that he used to alter the figures just to cover the amounts he had secretly withdrawn.

If the officers had carefully carried out the checking work entrusted to them and had not parted with the balance books until they had completed

their checking and compared the figures with the General Ledger Balance Book, a man like Kali Charan Nag would have hardly any chance of duping them.

SINGLE POWER OF ATTORNEY

“SIR, have you noticed any irregularity about the Investment Account of the Bank, when you took charge of the securities from Mr. Wildhead, meekly put in Hira Lal, the security clerk in the International Bank.

Mr. Fairbrain, who had recently assumed charge of the Branch did not like a clerk taking the liberty of making insinuating statements against a senior officer like Mr. Wildhead. He, therefore, dismissed him with a curt reply indicating that he was not interested in such gossip.

Though Mr. Fairbrain had administered a rebuke in the interest of discipline, the words and the manner in which Hira Lal had spoken them, had created a deep impression on his mind that there was something wrong with the securities. He decided to find out whether there was any truth in what Hira Lal had said.

He sent for the Investment Ledger and the Balance Book, in which balances had been taken down when he took over charge. He carefully scrutinized every item in the Balance Book. The face value he compared with the securities on hand and with the certificates received from other Banks where the securities had been lodged. He checked

the Book value of each security as shown in the Investment Ledger. He checked the totals again and tallied the Book value of the Investments with the balance in the General Ledger. He could not find any difference.

Next morning Hira Lal had to face a volley of questions from the infuriated Manager: "What did you mean by saying those things against Mr. Wildhead yesterday? If there is anything wrong, it is you who will be held responsible. The entries are all in your handwriting."

For the first time Hira Lal realised that he was so near the prison bars. He had all along believed that he was an ordinary servant and was expected to carry out implicitly the orders of his superior. It had never occurred to him that if there were anything wrong, he would also be held guilty of aiding the Manager in defrauding the Bank. Mr. Fairbrain also in the meantime appreciated that the poor clerk, even if he wanted, could not have stopped Mr. Wildhead from resorting to the method he was alleged to have adopted. He cooled down considerably. The change in the attitude of the Manager enabled Hira Lal to gather courage and explain how he had without realising the consequences carried out the instructions of the Manager. He therefore slowly began: "If you will please give me an opportunity

to explain how the things were done, I can clear my position." "Well, go on," said the Manager.

"Mr. Wildhead, Sir, was one of the best and kindest officers we have ever seen. Somehow, he appeared to be worried for the last six months. He used to have long conferences with the stock-brokers. Since January last he started asking me to make certain entries in the Investment Ledger without preparing corresponding vouchers or passing entries in the General Ledger. On the 4th of February, he gave me four contracts in one day for 4% Loan 1960-70. First set showed that he had bought two lacs of 1960-70 at Rs. 88/- per cent and sold the same at Rs. 89/- per cent. The next set showed that he had bought three lacs worth of securities at Rs. 91/2/- and sold them at Rs. 87/14/- %. In the ordinary course we should have received a cheque for Rs. 2,000/- and delivered a cheque for Rs. 9,750/- but he asked me to prepare a voucher for the *difference*, saying that as all the transactions had been put through by one broker, it was better to draw one cheque for the net difference. He had observed that he had made profit in the morning and had sustained loss in the evening. He ordered me to keep a cheque ready for the difference in favour of Messrs. Moorthy & Co., Stock and Share Brokers. He instructed me to pass the entries in the Investment Ledger according to the contracts but to

pass only one entry for the difference of Rs. 7,7,50/- in the General Ledger on account of the cheque which was paid to the Brokers. In the beginning I believed this to be a *bonafide* loss but later on I found that his daily transactions almost invariably resulted in loss.

"Mr. Wildhead was one of the cleverest managers and had rarely lost heavily in Government securities. His forbidding me from passing entries for all the contracts through the General Ledger had no doubt aroused my suspicion, but I could not exactly follow what he was doing. It was only when you handed me yesterday a list of securities according to which you took over charge from him, that I found that though the book value of the securities was almost the same as it was five months ago, the face value had gone down by about five lacs of rupees. This was why I enquired whether you had satisfied yourself that everything was all right with the Investments."

The detailed explanation given by Hira Lal now placed Mr. Fairbrain in a position to find out whether Mr. Wildhead had really done away with the Bank's Investments. When he took out the exact figure of the securities missing from the Investment he found that Mr. Wildhead who was in sole charge of the securities and who possessed single power of attorney

which enabled him to endorse away the Bank's Government securities without joining with any other officer, had sold five lacs sixty thousand worth of Government papers and had utilized the proceeds in meeting his personal liabilities to stock brokers. To make up for the securities sold, he faked certain contracts and thus inflated the book values of the remaining securities.

UNEXPECTED OBJECTIONS BY THE PUBLIC DEBT OFFICE

THE Public Debt Office receive crores and crores of rupees worth of Government securities every year for certification, renewal or consolidation. They are guided by certain rules which though very strict cannot be said to be unfair. As far as possible they try to help the public to meet the objections raised by them in accordance with the rules.

A certain mill had bought Government papers worth lacs of rupees and the Managing Agents acting on behalf of the mill had raised money from a Bank on the strength of the Government securities. The advance ran in the books of the Bank for quite a long time. After a few years the Bank lodged the Government papers with the Public Debt Office for renewal, but the Public Debt Office declined to renew the same on the ground that the Memorandum and Articles of Association of the mill did not authorise the company to invest its funds in Government securities. The company had to get its Memorandum and Articles of Association amended before the papers could be renewed.

There was, however, another interesting case where the Public Debt Office was unable to help the Bank. On some of the securities in the hands of

the Model Bank one of the endorsements was by an officer of a company who had the necessary power of attorney granted him. This power of attorney was not registered with the Public Debt Office and the company had long since gone into liquidation. The Bank could not arrange to produce the power of attorney or the Minutes of the meeting of the Board of Directors of the company granting the power of attorney to the said officer. The papers therefore proved worthless to the Bank.

ADVANCES AGAINST PROPERTY

THE meeting of the board of Directors of the Credit Corporation of India Ltd. held on the 21st of January 1929 had lasted for over four hours. The Board had been discussing the report of the Auditors who had criticized some of the large outstandings against properties and had declared that unless they were furnished with scientific valuation of these properties by competent Engineers they would not sign the next Balance Sheet.

"I wonder why the Auditors insist on getting the properties valued by some well known firm of Engineers when we already hold the estimates by our Branch Managers, made at the time the advances were made in 1921," put in Chimnya Butcher, one of the Directors.

"Just as an Insurance company must get a doctor's report on the health of an insured and would not accept an agent's report, similarly the Auditors would not accept the Branch Manager's estimates but would be justified in demanding a scientific valuation by a competent Engineer," explained Dr. Ganesh Sahai, the Chairman of the Board of Directors.

At the time of the next half yearly closing on the 30 June 1929, the Auditors refused to affix their signature to the Balance Sheet without having the

Engineers' valuation reports on the properties. Somehow or other the Directors persuaded them to accept a report submitted by a Committee of Directors who had visited almost all the properties in Cawnpore and had put down their estimates of the present worths of the properties.

During the next few months some of the properties which had been mortgaged to the Bank were sold through court in satisfaction of the decrees which the Bank had obtained. The amounts realised fell far short of the dues of the Bank against those properties.

The Auditors while auditing the returns relating to the Balance Sheet as at the close of business on the 31st December 1929, came across the entries for amounts written off on account of the losses suffered on the sale of properties, and definitely refused to sign the Balance Sheet until they were satisfied by reports from competent Engineers that the properties mortgaged to the Bank could cover the advances outstanding against them.

The Directors had therefore no other alternative but to comply. The valuation report submitted by the Engineer revealed that:

1. Some of the properties had so much depreciated in value that they were worth not even one fifth of what the borrowers had paid for building or

purchasing them in the boom period;

2. Some of the properties built on leasehold land against which advances had been made were not likely to fetch even a single penny as the lease rents payable in respect of the land were much less than what the properties built on the land could be expected to fetch by way of rent; and

3. Many of the properties had become dilapidated for want of repairs.

The Directors were therefore called upon to make provision for Rs. 10,00,000 on account of the expected aggregate shortfall in their Advances against Properties.

The balance at the foot of the Profit and Loss Account, together with the Secret and Disclosed Reserves could not cover even half of this amount. The Bank could not pay any Dividend. On the other hand it had to disclose 'Bad Debts not provided for,' on the assets side of the Balance Sheet.

When this fact became known to the public, there were heavy withdrawals and the Bank had soon to close its doors for locking its funds in 'brick and mortar' without proper and periodical investigations regarding the worth of the properties against which advances were made during an exceptionally active spell of land boom.

The following are some of the extracts from the

Liquidators' Report dealing with Advances against properties:—

1. "The Bank had advanced Rs. 75,000/- to Jahangir Meherwanji, at Bombay, on the equitable mortgage of his property situated on King's Road, which he had purchased for a lac of rupees on 27th August, 1921, when the speculation in landed property had taken the prices very high and had increased the rents abnormally. Rents have now come down and the same property cannot now fetch more than Rs. 30,000/-.

"It appears that the borrower had no other means but Rs. 25,000/- in cash and all this he had deposited with the Bank by way of margin, probably, expecting to dispose of the property very soon at Rs. 1,25,000/- or even Rs. 1,50,000/-. His expectations did not materialise and he still owes the Bank Rs. 1,03,900/-.

2. "On the 27th of April, 1921, the Bank had accommodated Mohd. Ismail against his property situated in one of the slums of Cawnpore inhabited mostly by the lowest strata of Mohammedan society. Mohd. Ismail is the Chaudhry of that locality and no body is coming forward to bid for this property. All this Rs. 10,000/- advanced against the property must now be regarded as a bad debt.

"It has been suggested to us that we should try to sell off his property to one of the *goondas*. But

there seems to be an understanding between the borrower and the *goondas* and our attempts in that direction have also failed.

"We do not think we shall be able to get any offer for this property. Practically the entire amount will have to be written off as a bad debt.

3. "We have been faced with a peculiar difficulty in realising the value for the plot of land on the Mall against which the Bank had made an advance to Nathoomal Potdar.

"It appears that when the borrower mortgaged his plot of land to the Bank his sister owned a large strip of land along the main road and the officers who had gone to see the plot were taken to this plot through the plot belonging to the sister of the borrower. She does not now allow anybody to pass through her plot of land. We cannot expect anybody to pay any reasonable price for this land until we secure for the purchaser suitable access through the property of Indra Devi Mathur, sister of Nathoomal Potdar.

"It appears that it was a clever ruse to make the Bank part with that plot at a nominal price, and unfortunately we cannot see any way to foil the designs of this unscrupulous borrower. We are sure that the shortfall in this account will exceed Rs. 25,000/-.

4. "We find ourselves in a very difficult position in defending the suit filed by Uma Shanker, son of Kailash Nath Bajpai. The property mortgaged to the Bank is the property of a well-to-do joint Hindu family who have got a comfortable income from lands and houses.

"Uma Shanker in his plaint has stated that the income from the property was more than sufficient for their requirements and that in fact they had a considerable balance in deposit with another bank at the time Kailash Nath raised the loan from the Credit Corporation of India. Uma Shanker is challenging the mortgage created by his father Kailash Nath Bajpai in favour of the Bank, on the ground that the money could not have been required and in any case was not borrowed by his father for the purposes of the joint Hindu family. He admits that Kailash Nath was the *karta* of the joint Hindu family but is pleading that the debts were incurred for gambling and debauchery and not for the benefit of the joint Hindu family.

"As the advance was not made to a firm actively engaged in trading, the Bank should have satisfied itself that the money was being borrowed for joint Hindu family purposes.

"We are afraid Uma Shanker might succeed in getting the property released from our charge. The

advance of Rs. 40,000/- outstanding against Kailash Nath will swell the already large figure of bad and doubtful debts against properties.

5. "The worst instance of the deplorable lack of care and vigilance on the part of the Bank authorities was the overdraft limit of Rs. 50,000/- granted to Popat Lal Ghelabhai at Bombay against an Equitable Mortgage of his property situated in Ahmedabad. The firm failed in 1926. The Bank had been holding the title deeds as well as the Legal Adviser's report but nobody seems to have cared to read this report carefully. The Legal Adviser after stating that the borrower's title to the property was clear and marketable had added that he had not taken a search in the sub-Registrar's Office, at Ahmedabad, to find out whether the property had already been encumbered. The Legal Adviser had also stated that there were only *copies* of some of the important title deeds and the borrower will have to explain satisfactorily the absence of the originals.

"None of the Bank officials seem to have paid any serious attention to this part of the Legal Adviser's report and we now find that exactly a year before Popatlal pledged the title deeds with the Bank, he had created a registered mortgage over the property in favour of Mangaldas Haribhoy for a sum of Rs. 50,000/-, and had delivered him the im-

portant documents which were reported missing by the Bank's Legal Adviser in his report on Popatlal's title to the property. As our mortgage is equitable and was created months after the registered mortgage, we have hardly any chance of succeeding.

6. "Among the advances against properties we are surprised to find that the accommodation was granted to Mohd. Ibrahim to the extent of Rs. 25,000/- against his property which was built on a leasehold plot of land, though the lease had hardly ten years to run when the advance was granted. Next year we shall have to hand over the mortgaged property and the possession of the plot of land, together with all the rights, title and hereditaments appertinent thereto, free of payment. This will mean another bad debt of Rs. 25,000/-.

7. "It appears that the Bank had advanced Rs. 70,000/- to John P. Smith for building a cinema hall in Cawnpore. As neither Mr. Smith nor the Bank Manager had any experience of building a cinema hall, the cost of putting up the building had been exorbitant and the arrangement had been very defective.

"As the resources of Mr. Smith and his friend had been exhausted in building the structure there were no funds to run the cinema. In fact two more cinema halls have been built by rich and influential companies near about Mr. Smith's Theatre and there

therefore, no prospect of this picture house with many defects being taken up.

8. "We cannot close this section of the report without referring to the protracted nature of the litigation that the Bank has been conducting for the last ten years for realising the property held against the advance made to Basudev Ramchander Dahigaoner. The borrower and his representatives put in a number of frivolous applications only to gain time. Every time the Bank has reached the stage when the sale was to take place, the borrower managed to put in an application for maintenance on behalf of some woman in the family and gained time till her application was disposed of after two or three hearings.

"If this can be the average experience of the Bank in civil litigation, we wonder how long will it take us to realise the assets of the Bank, should a few of the debtors take into their head to oppose the claims of the Bank."

NEGLIGENCE OF AUDITORS

Mahomed Nagar is a prosperous town near Cawnpore. It is the Headquarter of the Tehsil. Some of the prominent people who had frequent occasions to go to Cawnpore were dazzled by the pomp and show and the wonderful service offered by the Banks. They thought of having a bank in their own village. As none of the bigger Banks could be interested in opening a Branch in that town, they started Mahomed Nagar Co-operative Bank Ltd. and appointed Babu Ganga Parshad Kapur, the oldest inhabitant of that place, as the chairman.

On account of his advanced age, Babu Ganga Parshad could not look into the affairs of the Bank. He invited a distant relation of his, Mr. Jamna Parshad, who was working as a clerk in a Bank in Lucknow and made him the Manager.

Unfortunately, Mr. Jamna Parshad turned out to be a scoundrel. Finding that most of the members of the Managing Committee and the Chairman were not capable of understanding the intricate transactions of the Bank, he started manipulating the various accounts in the Bank and defrauding the Bank of large sums of money. At the time of first audit he opened bogus loan accounts in the name of some of the prominent persons in the adjoining

clashes and faked Promissory Notes to evidence the debts alleged to be due from those people. The unsuspecting auditor passed the Balance Sheet without any question. Emboldened by his success in throwing dust in the eyes of the auditor, he proceeded errily withdrawing further sums by fraud. When the next audit was due he found an ingenious way of covering the amounts he had fraudulently withdrawn from the Bank. He had embezzled about Rs. 20,000/- during the previous eight or nine months. He got prepared certain faked receipts which purported to show that he had deposited Rs. 20,000/- with the Judhianagar Central Co-operative Bank Ltd. The auditor, who visited Mahomed Nagar Co-operative Bank Ltd. this time, was a smart and intelligent officer. He took the statement of advances and sent Registered A/D. notices individually to all the borrowers calling upon them to confirm the balances due from them, by return of post. He also asked the Central co-operative Bank to certify that they were holding Rs. 20,000/- on account of Mahomed Nagar Cooperative Bank Ltd. The replies received disclosed that the promissory notes which appeared to have been signed by Messrs. Uma Parshad, Bhanoo Parshad, Bhagwati Shanker, and Mahesh Parshad were all forgeries; the parties disclaimed having borrowed any money from the Bank or having

executed any promissory note in that connection. The Central Co-operative Bank also intimated that they held Rs. 1134/- only on account of Mahomed Nagar Co-operative Bank Ltd. and this amount was not in Fixed Deposit but was lying in the Current Account. The matter was handed over to the police, who proved that the thumb impression appearing on the promissory note of Mr. Uma Parshad was the right hand thumb impression of Jamna Parshad himself. The thumb impression in the case of loan outstanding in the name of Bhagwati Shanker was that of the left hand of Jamna Parshad. The promissory note which appeared to have been executed by M/s. Mahesh Parshad and Bhanoo Parshad bore the impressions of the right and the left toes respectively of Jamna Parshad, the Manager.

The cheat was sentenced to 7 Years' rigorous imprisonment. The blind reliance which Babu Ganga Parshad had placed in Jamna Parshad involved him in trouble ; he had to spend the last months of his life in jail where he died.

Jamna Parshad found it easy to rob the Bank of large sums of money by taking advantage of the confidence reposed in him by his aged and infirm relation Babu Ganga Parshad but little did he realize that frauds on banks could not be concealed for ever. The machinery of inspection and audit is

almost perfect and though a swindler here or there may be able to hide his fraudulent manipulations for a time by hoodwinking a negligent auditor who is fortunately a fast disappearing species, he cannot indefinitely conceal his dishonest manipulations. Nemesis is bound to overtake him sooner rather than later. He might fly from justice but there is no statute of limitation against crime, and even should he succeed in remaining in hiding for years, the day he is discovered he will have to stand his trial to pay penalty for crime and suffer physical torture and humiliation in jail in addition to the extreme mental anguish that he may have undergone while a fugitive from justice.